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STATE OF THE AMERICAN DREAM: ECONOMIC POLICY AND THE FUTURE OF THE MIDDLE CLASS

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE STATE OF THE MIDDLE CLASS AND THE "AMERICAN DREAM" TODAY FROM PERSONAL AND POLICY PERSPECTIVES

JUNE 6, 2013

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C O N T E N T S

THURSDAY, JUNE 6, 2013

WITNESSES

STATE OF THE AMERICAN DREAM: ECONOMIC POLICY AND THE FUTURE OF THE MIDDLE CLASS

THURSDAY, JUNE 6, 2013

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC POLICY,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 9:35 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Jeff Merkley, Chairman of the Subcommittee, presiding.

STATEMENT OF CHAIRMAN JEFF MERKLEY

Chairman MERKLEY. Good morning. I call this hearing to order. It is terrific to have all of you joining us, and I want to start by thanking all of our witnesses for their flexibility. Senator Lautenberg's passing and then his funeral yesterday caused us to need to reschedule everything on a very short time period, and so I apologize for the inconvenience that that created. I know that you all have traveled from afar, and thank you for rearranging your plans to be able to come this morning.

Because of the complexity of rescheduling to today, we are going to be split into two parts, going from 9:30 to just after 10. Then there will be a vote and then a full Committee markup, and then we will return at about 11:15, as soon as the full Committee is done, to about 12:15 to 12:30.

And so welcome to the complexity of the U.S. Senate, and we may well have Senators coming and going as their schedules allow.

This is the first hearing that I have held as a Subcommittee Chair, and so I feel very honored to be holding it and to have the topic be the American Dream and the American middle class.

The American Dream is a powerful concept that has driven generations of Americans to strive for a better life. Every American might define the American Dream a little differently, but for most, it is a concept broadly based around prosperity and economic opportunity, regardless of where one started in life.

For many, like my own family growing up, the real-life essence of the American Dream was that, with hard work and determination, one could obtain a good living-wage job and provide for a family, own a home, and maybe start a small business—in short, work your way into the middle class with a belief that things might be better for each generation building on the foundation of the previous generation.

Unfortunately, over the last decade at least, the American Dream has slipped slowly out of reach for many families. Working families face increasingly steep challenges in accessing and staying in the middle class. Some of these challenges, such as underwater homes and high joblessness, are a specific result of the financial crisis of 2008 and the Great Recession that followed. Others arise from broader trends, such as globalization and technological change. Still others arise from misplaced priorities in our tax budget and investment policies. Here are just a few background points.

Between 1989 to 2010, hourly productivity grew more than three times as fast as wages. But young men ages 25 to 34 working full-time today are earning 10 percent less than their fathers did 30 years ago. The entire bottom 20 percent of wage earners has seen hourly wages decline by 30 cents, inflation adjusted, and the next lowest 20 percent saw those earnings fall 60 cents on the dollar, a 3.9-percent and 4.3-percent decline, respectively.

This is against a backdrop of explosive earnings growth for those at the top, nearly a 30-percent increase for the top 20 percent in our society.

Meanwhile, the costs of basic features of the middle class, such as public college, rent, utilities, and health expenditures have increased between 41 to 80 percent over the time period between 1970 and 2009.

In trying to account for these rising costs and the increasing income disparity, median family holdings of debt have gone from $25,300 in 1989 to $70,700 in 2010. And that debt is hitting our next generation hard because our students are incurring a lot more debt as they work to get a college education. In 2011, 66 percent of college seniors at public or nonprofit schools graduated with debt compared to only 33 percent in 1992.

And due primarily to a collapse in home values, median net worth fell from $126,000 in 2007 to $77,000 in 2010, lower than it was in 2001. And as of March of this year, about one in four homeowners is underwater, meaning they owe more on their home than their home is worth.

Our unemployment rate remains stubbornly high, stuck above 7 percent, and 60 percent of the jobs that we lost in the recession were living-wage jobs and 60 percent of the jobs that are being restored after the recession are not living-wage jobs. So this continues to have a compressing effect on the middle class. In 1998 through 2012, just 14 years, we lost 5 million manufacturing jobs and 40,000 factories.

So however one looks at it, from income perspective, debt perspective, net worth perspective, unemployment perspective, student debt, things are tough. The data paint this picture: Working families have been hurting for a long time, and with the crisis in 2008, a lot of the families were financially crushed.

Today's hearing aims to shed light on both the challenges of the Great Recession and those that have been developing over a longer period of time. Most importantly, the hearing will address the real-life impacts these challenges have on working families striving to hold onto life in the middle class.

We will hear from three Oregon families who were recently featured in the documentary film "American Winter". They were cho-

sen for this film not because their stories are exceptional, but precisely because the challenges and choices that they have faced in the aftermath of the recession are so typical of the challenges and choices that families face, working families face across America.

Frankly, we do not hear enough from ordinary working families who, in tough times, are fighting as hard as they can to get by. So I hope all of Washington will take note of their experiences, and I particularly want to thank them from coming a very long way to share their stories.

We are also fortunate to have joining us a panel of experts in economics and business. I hope we can have a robust conversation about the causes of our shrinking middle class and what we can do at the national level to restore the pathways to the middle class. Those pathways are living-wage jobs, education, home ownership, and small business.

After Senator Heller's opening statement, Senator Heller and I will provide a brief biography for each witness, and then we will jump into the conversation.

I now invite my colleague Senator Heller to offer an opening statement.

STATEMENT OF SENATOR DEAN HELLER

Senator HELLER. Thank you, Mr. Chairman, and you are off to a good start. And I would agree that this is a critical, critical issue and topic, and I am pleased to be part of this Subcommittee today working on these issues that I think are critically important.

I want to thank the witnesses for taking time out of your schedule and rearranging your schedule so that we could be here today and certainly do appreciate that, and everybody that is also here that find this topic as interesting as both the Chairman and I do.

It is no secret that the middle class is struggling, and what we are talking about today is on the mind of every American. I can tell you that in my home State Nevadans are fighting every day for a decent paycheck, a safe home, and a strong economy.

Unfortunately, Nevada has been ground zero of our economic collapse. For too long, we have led the Nation in unemployment, foreclosures, and bankruptcies. It is absolutely unacceptable that the unemployment rate around the country remains so high because these are not just numbers. These are people, families who are struggling day by day to reclaim the American Dream.

Every week I hold a telephone town hall meeting. I hear directly from my constituents about the issues that are important to them, and I literally get thousands of people on the line when I do this. Every week the number one topic that Nevadans raise with me are jobs and the economy. During these calls, I often ask a poll question and ask participants to give me feedback. Recently I asked a simple question: Is the economy improving? Seventy-nine percent say they do not see any signs that things are getting better.

I have always said we must ensure a strong safety net for the unemployed and those who are struggling. Ultimately improving the health of our economy and the middle class hinges upon job growth, and it has not received the attention it deserves in Congress.

It is past time for a genuine effort to work in a bipartisan manner to create the certainty and stability that will allow American families and businesses to thrive.

Now, I do not believe that Washington, DC, has all the answers to our problems. The real recovery will come from small business owners who hire a new employee, the worker who re-entered the labor market, and when students who recently graduate can find a job.

Again, I want to thank all the witnesses for being here today to share their experiences and to offer their suggestions as to how we can bring the American Dream back for everyone.

Thank you, Mr. Chairman. I look forward to all the testimonies from our witnesses.

Chairman MERKLEY. Thank you very much. And we have been joined by Senator Warren. Would you like to make an opening statement?

STATEMENT OF SENATOR ELIZABETH WARREN

Senator WARREN. I will just make a remark, and that is to start by apologizing for being late. I was on the floor talking about the approaching increase in student loan interest rates and how Congress needs to take action now. And I hope that is something we can explore more in the questions.

I want to thank you, Mr. Chairman, for holding this hearing, thank the Ranking Member. There is no issue that is more important than what we are discussing today. So thank you.

Chairman MERKLEY. Well, and the issue of interest rates on student loans goes right to the heart of the challenges of sustaining the middle class and debt.

Senator WARREN. Yes.

Chairman MERKLEY. So thank you.

I want to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials that you would like to submit. And now I will turn to introducing our witnesses.

First of all, let me extend my gratitude to everyone on the panel. Everyone traveled a long way to be here, from Seattle, Las Vegas, Princeton, New York City, and, of course, from Oregon. Thank you very much. We deeply appreciate your commitment to sharing your views with the Senate.

I would now like to introduce Diedre Melson, John Cox, and Pamela Thatcher, who are joining us all the way from Portland, Oregon. Ms. Melson, Mr. Cox, and Ms. Thatcher were the subjects, or you might say "the stars," of the documentary film "American Winter". This documentary was produced and directed by Emmy Award-winning film makers Joe and Harry Gantz. It aired nationally on HBO as of March 18th of this year. Filmed over the course of one winter, the movie tells the real-life stories of ordinary families who, during the financial crisis and recession, sought assistance from 211info, a nonprofit service that helps connect individuals in need with available public and private resources.

As these families faced dramatic unemployment and job loss from the financial crisis, as well as ongoing shifts in our economic landscape, they struggled to keep their heads above water, faced over-

whelming challenges, and confronted what to do with dwindling resources available to assist them. Since each is going to tell his or her own story, I am not going to give extensive introductory remarks, just a sentence or two.

Diedre Melson worked through high school and went to college immediately after graduating. After a few years of college, she was no longer able to afford it and transferred to actual career school, where she obtained certifications in the medical field. Diedre was laid off from her job as a phlebotomist along with 1,500 other employees during the recession.

John Cox is now facing a third year of unemployment and concerns about losing his home. He went to college and paid for it by working full-time and taking other jobs and worked continuously until October of 2008 when the recession created havoc and he was laid off.

Pamela Thatcher taught preschool for 9 years to save up before starting a family, at which point she and her husband relied solely on her husband Brandon's income. He has never been without work, had a good-paying job; however, he lost his job shortly after their second child was born.

I will leave the other details to their own description of how they faced these challenges.

Let me say simply that I hope the Subcommittee can hear the ground-up view of the state of our economy as it is playing out for so many American families and that we can think about the policies that will address these real challenges on the ground.

We are also lucky to be joined by several experts on economic policy.

Atif Mian is a professor of economics and public policy in the Department of Economics at the Woodrow Wilson School and Julis-Rabinowitz Center for Public Policy and Finance at Princeton University. He holds a bachelor's degree in mathematics and a Ph.D. in economics from MIT. His recent work centers on understanding the origins of the global financial crisis, the political economy of Government intervention in financial markets, and the link between asset prices, household borrowing, and consumption.

Amy Traub serves as senior policy analyst at the think tank Demos. She has a broad research focus on consumer debt, job quality and job creation, and policies to build the American middle class. Prior to Demos, Amy worked for Drum Major Institute for Public Policy, where she authored a number of influential reports, including "Principles for an Immigration Policy To Strengthen and Expand the American Middle Class". She has contributed essays and opinion articles to a variety of publications, and her book chapter, "A Strengthened Middle Class", appeared in "Thinking Big: Progressive Ideas for a New Era".

Nick Hanauer is a partner in the venture capital firm Second Avenue Partners. One of the Pacific Northwest's most successful entrepreneurs and investors, he has founded or financed dozens of companies across a broad range of industries, including manufacturing, retail, e-commerce, digital media, software, aerospace, and banking.

How is all that possible in one lifetime?

Notably, he was one of the first investors in Amazon.com, served 5 years as a board adviser, also founded—he was also CEO and then chairman of A—is it “quantitative”?

Mr. HANAUER. aQuantive.

Chairman MERKLEY. Thank you—aQuantive, which was purchased by Microsoft in 2007. Mr. Hanauer is involved in numerous civic and philanthropic causes and coauthor of two books, “The True Patriot” and “The Gardens of Democracy”, both national best sellers in politics.

And now I would like to invite Senator Heller to introduce Mr. Hill.

Senator HELLER. Thank you, Mr. Chairman. I want to welcome Steve Hill from my home State of Nevada and thank him for being here today.

Mr. Hill is the director of the Governor’s Office of Economic Development. He is charged with stimulating business expansion and retention, encouraging entrepreneurialism, attracting new businesses, and facilitating community development in Nevada. No small task.

Mr. Hill is founder of the Silver State Materials, a concrete, sand, and gravel supplier in the Las Vegas area since 1987. Silver State was purchased recently by CalPortland in 2008.

Prior to accepting his appointment, Mr. Hill served as CalPortland’s senior vice president, responsible for Nevada and Arizona operations, as well as chairman of the Service1st Bank of Nevada, chairman of the Las Vegas Chamber of Commerce State Policy Task Force, and commissioner on the Nevada Commission on Economic Development.

Mr. Hill is a past chairman of the Chamber’s Board of Trustees and the Boys and Girls Clubs of Las Vegas. He also served as chairman of Government Affairs for the Las Vegas Chamber, the Associated Builders and Contractors, and the Associated General Contractors.

Mr. Hill, thank you for being here today and for giving us your testimony. Good to see you.

Chairman MERKLEY. Thank you, Senator Heller, and welcome, Mr. Hill.

And with that, we will begin our testimony, and, Ms. Melson, you are up first, and we will ask you to take about 5 minutes, but we will not be too strict on that time.

STATEMENT OF DIEDRE MELSON, PORTLAND, OREGON, SUBJECT OF DOCUMENTARY MOVIE “AMERICAN WINTER”

Ms. MELSON. Good morning. Thank you, Chair Merkley and Ranking Member Heller—excuse me if I am a little nervous—and thank you to the Subcommittee.

Chairman MERKLEY. You are among friends.

[Laughter.]

Ms. MELSON. Like Senator Merkley explained, I am an Oregon resident. If you saw the film “American Winter”, I was starting at WorkSource at that time. I now work for 211. I have been working since I was 13 years old. Like he explained, I worked all through high school and went to college straight out of high school.

When I was not able to afford college, I decided that I needed to do something practical, so I was certified as a medical assistant cardiac technician and phlebotomist. Phlebotomy is my favorite part of that whole suite, and I was fortunate to move from Los Angeles to Oregon and get a dream job, and that was at the Alpha Plasma Center.

Unfortunately, shortly after me being hired, there was a management issue, and we were taken over by another company. That company decided to close everything down, so like Senator Merkley explained, that resulted in 1,500 jobs lost.

Of course, it always takes you time to dig yourself out of a hole, so I was unemployed and went out to try to search for employment, and the job market was really, really bad at the time. So when I was rehired, it took forever to try to dig myself out of debt.

I have four children. I have a son who is 6 feet tall, he weighs 280 pounds. He eats a whole bunch.

[Laughter.]

Ms. MELSON. He is a wrestler and football player. I am so proud to say that he went to the Reno World Champions this past April. He took fifth, and he is now an all-American wrestler. And so I am so excited and happy for him, but I also fear for his future. He is looking to go to college this coming fall, and because like you guys mentioned before with the increase in tuition, with the decrease in scholarships, I am fearful of how he is going to do that. I know that his prospects are limited if he does not further his education. That was why I went to college, because I felt like I needed that in order to secure a job. And even after I was not able to complete my degree, which was in communications, I went ahead and did something that I thought was practical.

Setbacks are really hard. I have had to take advantage of social services. I am currently receiving SNAP benefits, and for those of you that do not know, that is the food stamp program, although I do work a full-time schedule.

In Oregon our minimum wage is $8.90, and I think that that is probably one of the higher ones in the country. I make $13.52, and it is just not a living wage. It is not enough for me to support my four kids, especially with two of them being in college. My daughter is at a community college right now, but the expenses are still the same. Books are high, really high, and so it is really difficult.

I want people to know, like I said before, I work for 211 now, and I speak to people every day who are in the same situation, if not worse, than what I am in. I talk to people who—I literally talked to a lady not too long ago who called me from work, and her water had been shut off. Her 13-year-old daughter was the one who discovered it. She was at home by herself, so she was very afraid, and the lady, she calls me, and she is in tears. And I told her, you know, "You have to leave work, and you have to go so that you can get your water reconnected." She had been making, you know, small payments, but—and like I said, she is employed full-time. So she is not sitting around wanting a handout. She is just in over her head, just like so many of us are.

I had to, like, literally kind of pull teeth for her to leave her job because, of course, when she leaves work, then she is missing

money. But if she does not leave work, then she has no water. So it is a double-edged sword. It is kind of a lose-lose situation.

I talk to people like that every day who are humiliated to have to go and ask for services, myself included. I never expected to work a full-time schedule and still depend on rental assistance, to still depend on SNAP benefits, to still depend on those services that you think are reserved for those who are simply unemployed.

I know the media, they exploit that 1 or 2 percent that may be taking advantage of the system, but the reality is that other 98 percent, they do not want to be there.

Our former CEO, Liesl Wendt, has moved over to the Department of Human Services, and she sends us over reports sometimes, and she sent over a report that said prospectively, in 2016, that 1,000 families per month will be cutoff the TANF program. And the TANF program is Temporary Assistance for Needy Families.

What they have in place now is 60 months lifetime, and that is a little unrealistic because you never know what life is going to deal you, and you never know when you may need those services. But the way they have it set up now is that after that 60-month period, if the parents have not found employment, then they are cutoff of the system but their children still receive the benefits that they need.

The potential in 2016 is that the entire family is cutoff, so there is no more assistance. There is no medical, there is no SNAP benefits. They are completely cutoff. And my question is: What happens at that time? Because, realistically, we do not have 1,000 jobs to offer people, so what happens at that time?

Also at WorkSource I had the opportunity to work with people like John who were in the warehouse field, production field, construction. They worked those jobs 15, 20 years and felt like they would retire from those jobs. Now they are in their mid-50s, and they cannot find employment. It is virtually impossible. They are competing against the new technology. They are not familiar with the Internet. They are trying to fill out online applications, and it is scary. It is scary. And I fear the same thing because in less than 10 years I will be there. And so what happens at that time?

So I just would really, really like for people to understand that people who are taking advantage of this a lot of the times are not those people that we see in the media, those greedy people who are wanting to take advantage of the system. These are people who are really in a financial crisis. We are the working poor. We are people who get up every day, and we try to pay our fair share and we try to pay our dues. But despite what we do, despite our efforts, we are sinking.

So thank you guys again for allowing me a moment.

Chairman MERKLEY. Thank you for speaking really from your own personal front-line experience as well as the folks you speak to every day on 211info who are challenged very similarly. Thank you.

Mr. Cox.

STATEMENT OF JOHN COX, NEWBERG, OREGON, SUBJECT OF DOCUMENTARY MOVIE "AMERICAN WINTER"

Mr. COX. Hi, I am John Cox, and I appreciate the opportunity to come and meet with you folks. I just want to make sure people understand. I am just a representative of millions of people around the United States that are in similar situations as we are.

Senator Heller, Nevada, I am very aware of the employment issues over there. My hat goes off to you.

And, anyway, just to kind of give you a little background, you know, my childhood, I was always raised to believe in the American Dream. My grandparents, my parents, church, community—everybody, you know, talked about how great the United States was and what the American Dream was. And, you know, the American Dream mantra was just driven into me and I still believe in it. I really do.

You know, I was raised, I always heard, you know, "Work hard." You know, "If you work hard, you will have no worries." You know, "Get an education. If you get an education, you will never have to worry about a job ever again." You know, "You are going to be in the middle class," all that. You know, "Save money for the future, you know, in case something comes up you have a little nest egg to fall back on."

My family also was very adamant about volunteering in the community, you know, giving a little of yourself back. It was not just a slogan. It was, you know, "Help your community, help your neighbor."

You know, and then my father's famous words were, "Take care of your job and the job will take care of you." You know, I always believed that. I do not know how many times I heard that. You know, I knew the rules, I played by the rules that I thought were laid out for me. I took seriously the expectations placed on me by the Government and the community and my family.

Working hard was not a choice with me. I was raised—as a kid, I was raised on a cattle ranch. And from the time I could walk, almost, it seemed like, I was having to get up at 4 o'clock in the morning and go out and feed the cattle in the winter. And that was not going out in the barn. That was actually out in open pastures.

Anyway, you know, in the springtime, when it was what we called "calving season," my brother and my dad and I, we would take shifts during the night to go check on the cattle during calving season, you know, make sure that they were not having any problems. And, you know, my—unlike a lot of people, my brother, similar I guess, my brother and I, we used to—we not only fought over whose turn it was to wash the dishes, it was also whose turn was it to milk the family milk cow. And, you know, there was always work to be done.

My father, he is college educated, and it was instilled in me that it was not a question of whether you are going to go to college or not. It was, "You are going to college." I funded myself through school. I did not take out any student loans or anything else. I took on jobs like—well, I went up into Alaska commercial fishing, even going during school. I even brushed volcanic ash out of parking lots when Mt. St. Helen's blew back in 1980, I think somewhere around

there, and, anyway, I had a job going around parking lots with the push broom and making money that way.

So, you know, it is not that I am afraid of work at all. I would rather be at a job right now than here, although I am thankful to be able to speak. But I am kind of similar to Diedre. I have not been without a job since I was about 12 years old until October 2008. The longest I think I had ever been going without a job was a week, and, anyway, you know, the mantra again was, you know, "You take care of the job and the job will take care of you." And, you know, again—but, anyway, about 12 years ago, I invested in a house for my family, and I had saved, oh, about $35,000 in savings, kind of like an emergency fund. I had a 401(k) going. You know, I was on top of the world, I thought. I was making $60,000 a year salary as a cost accountant. And, anyways, you know, when I was laid off in October 2008, I was not too worried about getting another job. You know, it was like, well, you know, I always had one so, you know, it is not going to be too much of a problem. So a month went by, and I just kind of said, "Well, you know, it is just right around the corner." You know, keep a positive attitude. And pretty soon 6 months go by, and, you know, now you are into that dreaded—trying to get rehired after being 6 months unemployed.

And so, anyway, I was being able to supplement my house payments and all my bills. I was keeping current with all my bills, my mortgage and everything, out of this savings account I had. I had over $35,000 in savings. Anyway, I exhausted that, and then I pulled out a 401(k), and, you know, after all the early withdrawal penalties and blah, blah, blah, it gave me another $35,000, and I continued to keep up on my payments, because I had a great credit rating. You know, I cannot say excellent because, you know, very seldom have I seen anybody have an excellent credit rating. But, anyway, so I kept up on those, and then after about a year-and-a-half or so, I started seeing the handwriting on the wall where, you know, my funds are getting depleted. Finally, after a year and a half, I applied for unemployment. That was the first time I even applied for unemployment, because people on unemployment, that was not me. You know, that was the other people.

And, you know, so anyway, like I say, after, you know, that dreaded 6-month unemployment, employers for some reason, they will not look at you. They say you are outdated or something like that, you know. You know, they are not anxious to hire a person of my age, anyway, it seems like. Right now, Wells Fargo is in the process of trying to foreclose on my home, you know, and I have been getting some awfully, awfully good help from people trying to help me save my house. This house is not for me. I have a Down's syndrome boy. He is 12 years old. And that was one of my intents of getting this house 12 years ago. It was not for me. It was kind of like a nest egg for my boy in the future for when I was not around. That is what drives me even today, is not looking out for myself so much as I am looking out for my kid.

Anyway, I still do not sit—you know, I do not sit on my hands. I still am putting out job applications left and right trying to find a job. I just, you know, nothing has come to fruition yet. I have even looked at minimum wage jobs, and it is really difficult be-

cause, you know, if it was just me, I would have no problem working for minimum wage. But when you work for minimum wage and you have to pay for day care or a baby sitter for your kid, it is just a wash. You know, you cannot afford to work and pay a baby sitter and expect to be able to live comfortably.

Right now, the jobs I have been looking at in the cost accountant area and everything that used to pay $60,000, right now you are lucky if you can find a similar job out there for $35,000.

Chairman MERKLEY. Mr. Cox, on that note, I may have to stop you because the vote is underway, and we are going to miss it if we do not adjourn.

Mr. COX. Oh, I am sorry.

Chairman MERKLEY. And I am sorry to interrupt your story, but the last point you are making is that challenge of living-wage jobs disappearing and much lower wage jobs reappearing.

Mr. COX. Sure.

Chairman MERKLEY. So we have three votes lined up, so we will be gone for a while. And then the full Committee will convene to mark up a bill. And then as soon as they are done—and we expect that to be about 11:10 or so—we will reconvene this Subcommittee and continue, and we will ask Pamela to kick off the next session.

So thank you all, and I will see you a few minutes down the road.

[Whereupon, at 10:12 a.m., the Subcommittee recessed and reconvened at 11:53 a.m.]

Chairman MERKLEY. I call the Subcommittee back into session, and we were just completing Mr. Cox's testimony, and thank you very much, and we are going to proceed with Ms. Pamela Thatcher. And I am going to ask folks to try to stick to the 5 minutes because, due to the craziness of the Senate schedule, our time has been substantially compressed.

First we have to have the completion of the ceremonial passing of the water.

[Laughter.]

Chairman MERKLEY. Thank you. Ms. Thatcher.

STATEMENT OF PAMELA THATCHER, TUALATIN, OREGON, SUBJECT OF DOCUMENTARY MOVIE "AMERICAN WINTER"

Ms. THATCHER. Chairman Merkley, Ranking Member Heller, and Members of the Subcommittee, I just want to thank you for giving me this opportunity to testify before you and share my experience.

I never would have imagined that I would have been in the position that I have been in these last couple of months. My husband, in the fall of 2011, lost his job, and the savings we did have in our account grew thin. The decision to reach out for help was incredibly difficult for my husband and me. I definitely had the mom survival mode that kicked in. I have two young children. Right now my oldest is 3½ and my youngest is 1½. So when that survival mom mode kicked in, I knew that I had to do anything and everything in my power to take care of my children. And for most parents, almost all parents would do that.

So accepting assistance was very hard. Me and my husband, we had the American Dream. We dreamed that we would work hard, go to college, plan to have a family, have that white picket fence,

have that job that you have had for years, retire—everything that I think all of us as children figured that that would happen. And so we got married in 2008. We planned our family in stages. We had our first child, then our second child. I taught preschool for 9 years. When my first child was born—I think he was about a year—my husband was doing fantastic in his job. We were thinking that if I became a stay-at-home mom that we were safe, secure. We were middle-class families working hard, and we had everything ahead of us. We knew that we would be fine.

And that is exactly not what happened. My husband, when he lost his job, it was like the carpet was ripped right out under us. Our dream kind of went down. But we still had that hope. We still thought we were going to get through this. We did not know that it would be months, it would be months and months. We figured since he always worked, he always had a job, we always had that strength in us that we would never ask for assistance, we can do it on our own type thing.

We did not find ourselves in this situation, and, unfortunately, we were. We had to ask to get food stamps. We had to be on TANF. I had to go on WIC. It is heartbreaking when you tell yourself, "I will never, ever do that," and you have this stigma on these people that they are using it and they are—what is the word I am looking for? They bred abuse to the system, and that is what you think until you are in it. You have no idea. You are looking around here seeing these families that have worked hard their entire lives, and they are both working, mom and dad, and they have children, and they cannot survive. They are drowning.

So in this situation, we did everything we can. We cut back on every possible expense, and when those were gone, we had to go—we had to ask for assistance. Being in "American Winter" opened my eyes, and I hope it opens up millions of people's eyes. I hope our statements here let other people open their eyes to really how bad the economy is. The middle class? What middle class? It is hard-working families. The middle class is falling. It truly is.

One woman at the grocery store came up to me. I will never forget this. It was after the film aired on HBO, and she had said, "You are that lady in that film." And I said, "I am." She grabbed my hand and held it, and she says, "You know what? I thought I was alone. I thought that when my husband lost his job I was all alone, and seeing this had made me feel stronger, that I can survive, that I am not alone, so thank you." And that really touched me.

My husband did finally get a job. Yay. Unfortunately, it is half of what he was making, so we are still struggling and we are still on assistance, unfortunately. But I just hope that this country, since it is going down the wrong path, that we can get back on the same path again. I really do, because it is for the people.

I just wanted to thank everyone here again for their time, and I know we do not have much time. I just wanted to thank you guys so much. Thank you.

Chairman MERKLEY. Thank you very much, Ms. Thatcher, for sharing your story.

Dr. Mian.

STATEMENT OF ATIF MIAN, PROFESSOR OF ECONOMICS AND PUBLIC POLICY, PRINCETON UNIVERSITY

Mr. MIAN. Good morning, and thank you, Senator Merkley, for having me. It is a great honor and privilege.

I want to focus my attention on the rules of the game in our financial system and how those rules of the game impact the middle class and the broader economy.

In particular, I will just give the example of mortgage contracts, the way they have been written in the past and how they impacted the middle class and the economy.

I can borrow the example of Mr. Cox, who gave testimony before us, to illustrate my first point, which is that when the decline in house prices happened starting in 2007–08, people like Mr. Cox, the middle class, had most of their wealth in their homes. They lost all of that wealth, but that was not all, as you heard in the testimony as well. Many of them continued to use their retirement income to pay off the debt that was really on a house that did not belong to them anymore because they were underwater. That is the first impact of the financial crisis, and it is a direct consequence of the way we wrote down those mortgage contracts. I will come back to that in terms of smarter policy choices toward the end.

The net impact of that on the American middle class has been devastating, and in my written testimony, if you refer to Chart 2, you will see the enormous impact it has had in increasing wealth inequality in the U.S. It is really remarkable.

The other important thing is that it is not just a question of middle class. What happens to middle class, because we live in an interdependent ecosystem, has a wider impact on the rest of the economy through two key channels in the mortgage context. One is the foreclosures that are imposed as a result of homeowners being underwater devastate home ownership across the country due to the fall in house prices that results from foreclosures. That is the foreclosure externality.

The other negative impact is the aggregate demand effect. When people lose wealth on their homes as they become underwater, they cut back on their spending drastically, and it is the middle America that has the highest propensity to consume, to spend. So when their wealth goes down, they are the ones that restrict their spending the most. The result is a fall in aggregate demand, which does not just hurt the people who are cutting back on spending. The other important point is that it impacts everyone in the economy because the stuff they buy, other people's jobs depend on it. And so people in Indiana, for example, get laid off because people in California are not buying enough RVs or enough automobiles.

The bottom line is that it is a result of the contracts that we decided to write down, the mortgage contract, that is, that leads to this destruction of wealth of middle class as well as the decline in aggregate demand and the overall economy.

So what can we do to rectify this situation, to prevent it from happening again? This is where I am going to make my second key point, that we need to have smarter contracts and smarter policy. And, in particular, in my testimony I have laid out the details of what I refer to as "the shared responsibility mortgages." These

mortgages are very similar to your standard 30-year fixed-rate mortgages, exactly the same, with two important differences.

The first one is that these mortgages offer downside protection for the homeowner based on her local house price index that is easily available these days. Under this protection, the standard 30-year fixed-rate mortgage payment, for example, will decline by X percent if the local house price index declines by X percent relative to when the mortgage was originally issued.

Now, think of—it is very easy to implement, and think about what would have happened. There would be no such thing as an underwater homeowner, no foreclosures, and we would have prevented the negative externalities that I talked about.

Now, one cost of doing this is that the lender is going to charge more up front for the protection that they are going to offer. So for that, I am going to offer a second suggestion, which is that we add to the mortgage contract a 5-percent net capital gain that will go to the lender whenever the homeowner chooses to sell their house or refinance their mortgage. Given the average appreciation in house prices and the average volatility in house price growth in the U.S., if you do the math, one can show that the 5-percent net capital gain sharing with the lender completely neutralizes the cost of the downside protection that the lender offers. And so we come back to the same cost for mortgages as we have under the current system, but, importantly, this suggestion gives us the opportunity to share risks equally across the population. It protects the middle class and it protects our overall economy and our overall labor market.

Let me just end by pointing out that the solution that I am proposing, if we had this system in 2007—and I have worked through the numbers—one can show that we would have largely avoided the Great Recession itself. In fact, if you think about the details, the proposal is entirely market based. There is no subsidy from the taxpayers involved ever. In fact, the shared responsibility mortgages help reduce budget deficits in the long run because they limit the need for countercyclical fiscal policy in the first place.

These mortgages give the lender a direct interest in worrying about potential bubbles, so that automatically imposes a safety valve in the system so the lenders will lean against the wind, so to speak, if they think they are in a bubble, because they are offering the downside protection so they will raise the interest rate or the cost of a mortgage if they think the housing market is in a bubble. So not only do these mortgages reduce the negative effects of the housing bubble, but they also reduce the likelihood of those bubbles from happening in the first place.

Thank you very much.

Chairman MERKLEY. Thank you very much, Doctor.

Ms. Traub.

STATEMENT OF AMY TRAUB, SENIOR POLICY ANALYST, DEMOS

Ms. TRAUB. Yes, thank you, Senator Merkley and Senators Warren and Heller, for this opportunity. My name is Amy Traub. I am a senior policy analyst at Demos. We are public policy organization

working for an America where we all have an equal say in our democracy and an equal chance in our economy.

Widely shared middle-class prosperity has made America the most hopeful and dynamic country on Earth, but the creation of the American middle class in the decades following World War II was not an accident. It was the result of deliberate public policy, and it required business, Government, and workers to all contribute to a shared social contract.

But over the past 40 years, that social contract has frayed even as it was expanded to include more Americans that were formerly excluded, including women and people of color. Government and business have become less committed to ensuring widespread gains, and individuals are shouldering virtually the entire burden. This go-it-alone economic system is creating record inequality, and it has stalled our engine of mobility for the next generation.

In the years after World War II, as economic growth and productivity increased, the workers contributing to that prosperity saw commensurate gains in wages. However, in the late 1970s, that connection began to break. While productivity increased 80.4 percent in the three decades between 1979 and 2011, the inflation-adjusted wages of the typical worker grew just 6 percent during that time period. What became of those economic gains?

A rising share of the Nation's gross domestic product is flowing to corporate profits rather than wages, and a larger share of overall income is going to the highest paid 1 percent of earners. Between 2009 and 2011, the incomes of the highest paid 1 percent of Americans grew by 11.2 percent while the incomes of the rest of Americans actually declined by 0.4 percent.

A number of scholars have investigated why economic gains are now so concentrated. Changes to the Tax Code that benefit the wealthy, the declining power of the minimum wage and other workplace protections, trade policy, and the weakening of organized labor and the laws that protect the right to organize are among the causes. All of these trends were shaped by public policy and can be changed by public policy.

In other cases, such as changing families and our increasingly diverse society, public policy has simply failed to keep pace with who Americans now are and how we now live. The result is that the traditional routes to the middle class have become more difficult to travel, and security has eroded for those already in the middle class, as we have heard today. Many jobs do not pay enough to cover basic living expenses, much less allow workers to save money and build assets for the future.

A college education is now increasingly the price of entry to the middle class, yet policy makers have allowed it to be priced out of reach of most Americans. Tuition at public 4-year schools has more than tripled in the past three decades, rising faster than either inflation or growth in family income. A major factor in the rise of public college costs is declining State support for higher education, which our research shows has dropped by 26 percent in 20 years. Meanwhile, Federal support has shifted from majority grants to majority loans, and the result is a crisis in access and completion. More than half of students drop out, primarily for financial reasons. Two out of every three students must now borrow to attend

college so that Americans now owe more than $1 trillion in student loan debt.

Home equity and savings nest eggs can provide an important buffer against hard times and can increase household economic stability. Yet in recent decades, financial deregulation, wild speculation in securities, and the aggressive marketing of toxic loans preyed on Americans' aspirations to build assets. The economic crash that followed decimated the wealth of American families, causing more than 2.7 million homeowners to lose their single largest asset to foreclosure.

This preventable tragedy has particularly wounded middle-class communities of color. Latino families lost an average of 66 percent of their wealth; African Americans, 53 percent. Instead of saving for the future, millions of working and middle-class Americans are now struggling just to service their debts. Demos' research shows that 40 percent of low- and middle-income households carrying credit card rely on their cards to pay basic living expenses. Credit cards are also widely used to pay medical bills and to cope with spells of unemployment. In effect, this is a high-interest way to make up for gaps in the public safety net.

At the same time, half of working Americans currently have no retirement savings outside of Social Security. Here, too, we have shifted away from a system in which Government and employers as well as workers contributed to middle-class retirement security. We have now gone toward a go-it-alone policy of 401(k)s, which put the risk of retirement entirely on the individual worker.

My written testimony offers a wide range of policy recommendations, and many of these policies are detailed further in our report, "Millions to the Middle," which I would be very pleased to share with the Subcommittee. But I just want to end by saying a few words about why these policies, many of which are so strongly supported by the American public, nevertheless seem so difficult to enact.

In Demos' recent study, "Stacked Deck", we have collected evidence of a distortion in policy outcomes that political scientist Martin Gilens describes this way: The preferences of the vast majority of Americans appear to have essentially no impact on which policy the Government does or does not adopt. This is because the affluent are overrepresented among voters, Beltway influencers, and campaign donors. This unequal political influence is particularly consequential because of significant differences in policy preferences by income level. The general public is far more open than the wealthy to a variety of policies that would help restore the middle class, including raising the minimum wage, providing more generous unemployment benefits, and using the power of the Government to directly create jobs.

Growing economic inequality is intertwined with growing political inequality, and to strengthen and expand the middle class and reclaim the American Dream, it is really imperative that we address both.

Thank you so much.

Chairman MERKLEY. Thank you very much, and thank you for your offer to provide the report. "Millions to the Middle Class", is that the name?

Ms. TRAUB. That is the name. I do have some copies over on the table.

Chairman MERKLEY. Great. I look forward to looking at it. Thank you.

Mr. Hanauer.

STATEMENT OF NICK HANAUER, SECOND AVENUE PARTNERS

Mr. HANAUER. Chairman Merkley, Senators Heller and Warren, thank you for being here and thank you for inviting me.

For 30 years, Americans on the right and left have accepted a particular explanation for the origins of prosperity in capitalist economies, and that is that rich business people like myself are "job creators," and if the taxes on us or on our companies go up, fewer jobs will be created; conversely, that the lower our taxes are, the more jobs we will create and the more general prosperity we will have.

Most Americans and many people in this room are certain that these claims are true. But sometimes the ideas we know to be true are dead wrong.

For thousands of years, people were certain, positive in fact, that Earth was at the center of the universe. It is not. And people who believe that it is have a very hard time doing astronomy.

My argument today is this: In the same way that it is a fact that the Sun, not the Earth, is the center of the solar system, it is also a fact that the middle class, not rich business people like me, are the center of America's economy. I will argue here that prosperity in capitalist economies never trickles down from the top. Prosperity is built from the middle out.

As an entrepreneur and investor, I have started or helped start dozens of businesses across a range of industries, and I have hired lots of people initially. But if no one could have afforded to buy what we had to sell, all my businesses and every one of those jobs would have evaporated.

That is why I am so sure that rich business people like me do not create jobs, nor do businesses, large or small. What does lead to more employment is a "circle of life" like feedback loop between businesses and customers. And only consumers can set in motion this virtuous cycle of increasing demand and hiring.

That is why the real job creators in America are middle-class consumers. The more money they have and the more they can buy, the more people like me have to hire to meet demand.

So when business people like me take credit for creating jobs, it is a little like a squirrel taking credit for creating evolution. In fact, it is the other way around.

Anyone who has ever run a business knows that hiring more people is a capitalist's course of last resort. It is what we do if and only if rising customer demand requires it; further, that the goal of every business—profit—is largely a measure of our relative ability to not create jobs relative to our competitors. In this sense, calling ourselves "job creators" is not just inaccurate; it is disingenuous.

That is why our current policies are so upside down. When you have a tax system in which most of the exemptions and the lowest

rates benefit the richest, all in the name of job creation, all that happens is that the rich get richer.

Since 1980 the share of income for the richest 1 percent of Americans has tripled while our effective tax rates have fallen by approximately 50 percent.

If it were true that lower tax rates and more wealth for the wealthy would lead to more job creation, then today we would be drowning in jobs.

If it were true that more profit for corporations or lower tax rates for corporations led to more job creation, then it could not also be true that both corporate profits and unemployment and underemployment are at 50-year highs.

There can never be enough super-rich Americans like me to power a great economy. I earn literally a thousand times the median wage, but I do not buy a thousand times as much stuff. My family owns three cars, not 3,000. Like most American men, I buy a few pairs of pants and shirts a year. My family goes out to eat occasionally, like most American families.

I cannot buy enough of anything to make up for the fact that millions of unemployed or underemployed Americans cannot buy any new clothes or cars or enjoy any meals out, or to make up for the decreasing consumption of the vast majority of American families that are barely squeaking by, buried by spiraling costs and trapped by stagnating or declining wages.

This is why the fast increasing inequality in our society is killing our economy. When most of the money in the economy ends up in just a few hands, it strangles consumption and creates a death spiral of falling demand.

Significant privileges have come to capitalists like me for being perceived as "job creators" at the center of the economic universe, and the language and metaphors we use to defend the current arrangements are telling. It is a small step from "job creator" to "The Creator." When someone like me calls himself a "job creator," it sounds like we are describing the economy. What we are actually doing is making a claim on status and privileges, such as the amazing differential between the 15- to 20-percent tax rate on capital gains, dividends, and carried interest that capitalists get and the 39-percent top marginal rate on work that ordinary Americans pay.

So we have had it backwards for 30 years. Rich business people like me do not create jobs. Jobs are a consequence of an ecosystemic feedback loop animated by middle-class consumers, and when they thrive, businesses grow and hire, and owners profit—in a virtuous cycle of increasing returns that benefits everyone.

I would like to finish quickly with a story.

About 500 years ago, Copernicus and his pal Galileo came along and proved definitively that the Earth was not the center of the solar system. A great achievement, but you may recall it was extremely unpopular with the political leaders at the time.

Remember that Galileo invented the telescope so you could see, with your own eyes, that it was a fact. But the leaders of the time were not much interested because if Earth was not the center of the solar system, then it was diminished; and if Earth was diminished, then so were they. And that was the only fact that they

cared about, so they told Galileo to stick his telescope where the Sun did not shine, and they put him in jail for the rest of his life and, by so doing, put themselves on the wrong side of history and the fact forever.

Oddly, 500 years later, we are having a similar argument about who or what is at the center of the economic universe—a few rich guys like me or the American middle class.

But as sure as the Sun is the center of our solar system, the middle class is the center of our economy. If we care about building a fast-growing economy that provides opportunity for every American, then me must enact policies that build it from the middle out, not the top down.

Let us not forget the fundamental law of capitalism: When workers have no money, businesses have no customers. Tax the wealthy and corporations—as we once did in this country—and invest that money in the middle class—as we once did in this country. Raise the minimum wage to $15. Those polices will not be just great for the middle class, they will be great for the poor, for businesses large and small, and the rich.

Thank you.

Chairman MERKLEY. Thank you, Mr. Hanauer.

Mr. Hill.

STATEMENT OF STEVEN D. HILL, DIRECTOR, NEVADA GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

Mr. HILL. Chairman Merkley, Ranking Member Heller, Senator Warren, thank you for having this hearing and for allowing me to participate. My name is Steve Hill. I am the director of the Nevada Governor's Office of Economic Development. I think I bring a couple of maybe distinct perspectives on the topic of the economy and the middle class.

Nevada has been at the epicenter of one of the biggest booms since my 25 years in Las Vegas, has represented—the first 20 years were some of the biggest growth the U.S. has ever seen. And the last 4 or 5 years have really been the epicenter of the housing crisis, and it is the industry that I was in before taking this job about 18 months ago.

I started a concrete company in 1987. In 19 of the first 20 years I was in that business, we led the Nation in job growth, in population growth, and it was truly a place where the middle class could get ahead, largely because there was so much work, so much competition for employment that it was a great place for my employees and for the middle class throughout Nevada.

We reached a point where the construction industry was 11.5 percent of the employment in the State when the national average for the construction industry is five. One of the lessons that we have learned—and I hope we exercise as we move forward—is that doing things that are unsustainable causes a lot of pain once the unsustainability goes away.

Our construction employment is now back to about 4.5 percent of our employment in the State, and it is likely to stay roughly in that neighborhood moving forward.

Approximately 100,000 construction workers lost their jobs, so they were hit with a one-two punch of a housing crisis, the value

of their homes dropping while they were losing their jobs. And they are faced with a situation where they are going to probably need to find employment in a different field.

So Nevada looked at this and decided that we needed a different approach, and so we have adopted that different approach. We are looking at this on a parallel path of trying to get the 150,000 workers in Nevada who have lost their jobs back to work as quickly as possible while building a broader economy in the State. We certainly want to do that in conjunction with the gaming and mining industries, which have historically been Nevada's predominant industries, what we are most known for. But we want the diversity that causes stability, and we also want to look at improving the quality of jobs and the pay that goes along with that for the citizens of Nevada. And that has started to work.

We have focused on some targeted opportunities in sectors—in energy, in aerospace, in logistics, just to name a couple; recently passed legislation to eliminate coal and to focus on renewable energy, which Nevada has in vast quantities. Partly, potentially, due to that legislation and partly due to the future prospects in Nevada, Warren Buffett and Berkshire Hathaway recently bought the monopoly energy company in Nevada, so I think that speaks to the prospects for Nevada moving forward. The "Oracle of Omaha" may become the "Nostradamus of Nevada."

We have focused on the FAA's effort to test unmanned aerial vehicles and integrate those vehicles into the national air space. It is an opportunity that Nevada presents great assets for and an opportunity for us to get into robotics, which we think would provide great jobs moving forward.

We are looking at broadening from a consumption-based market to an investment and export market. We think that is important for Nevada; we think that is important for the country. So that involves advanced manufacturing, research, and a commitment to research. We just funded during our last legislative session what we call the "Knowledge Fund," which ties our economic development effort to the university system to commercialize research and innovation. We have started to reach out more robustly to countries where we have population based in Nevada that already has connections, so we have a strong Hispanic, a strong Asian population in Nevada, so we are reaching out to Latin America and Asia.

I will just end by saying that workforce development is a big part of our economic development effort and a big part of mobility in the middle class, so we will continue to focus on that as well. But thank you for allowing me the time today.

Chairman MERKLEY. Thank you very much, Mr. Hill. We are producing a lot of solar panels in Oregon, and we would like to send them down to Nevada.

Senator HELLER. We will take them.

Chairman MERKLEY. We are going to try a little bit different procedure today in which, rather than do 5 minutes each, we are going to start with each doing questioning and just keep going in a circle. Senator Heller will start; Senator Warren will continue; I will do the third question. Maybe we will create a little more interaction among the points each of us making and the points you all are making.

With that, Senator Heller.

Senator HELLER. Thank you very much, Mr. Chairman. This ought to be an interesting experiment in itself.

I want to thank those who testified, the three that are here today, for your background, your experience, and we are all very understanding of the concerns that you do have.

Ms. Melson, congratulations with your son.

Ms. MELSON. Thank you.

Senator HELLER. That is a big event in Reno, and for him to come in fifth, that is pretty incredible. And for that, tell him congratulations. That is a huge honor in his case. I also want to thank the other two.

I think what I hear, what I think I am hearing in the overall testimony from the three of you is that for generations we had a country that said if you worked hard, you would succeed. That is what you were told by your parents, and that is what you told your own kids: If you work hard, you will succeed. If you play by the rules, you will be rewarded. And if you do not, there will be consequences. And for generations, that was true. And we are seeing now a generation of Americans where that is not true, and that is why we are seeing America's struggles today.

My question is for Mr. Hill, but it is based on something that Mr. Hanauer in your testimony—your testimony does confuse me a little bit, I will say that. And I do not mean that with any disrespect, but to Mr. Hill, whose job is to create jobs in Nevada, appointed by the Governor, if I am not oversimplifying, your testimony, Mr. Hanauer, but the concern is—in fact, we just ended a legislative session this week. But if I am not mistaken, you believe that by raising taxes we can create jobs. Mr. Hill, do you agree with that?

Mr. HILL. Senator Heller, I do not, and certainly not in and of itself. And part of the reason that I say that is we are in a competitive situation. Whether that is Nevada, whether that is the United States, not everyone will take that same approach. The businesses that we talk to are bottom-line driven and we do have to be competitive in order to attract them, or they will locate elsewhere. And so Nevada is looking in every way possible to try and be a competitive place so that the citizens there will have those opportunities. That is not just tax based, and it is certainly not just regulatory based. We need to provide a workforce that allows the business case for that business to want to do business in Nevada. The location, the logistic opportunities, the infrastructure that we have, there are many aspects of that. And every business will look at that differently.

Demand is certainly a part of that business case, so we have to look at the demand side as well as the cost side. But in and of itself, I would not.

Senator HELLER. Thank you.

Senator WARREN. Thank you, Mr. Chairman. I want to thank Ms. Melson and Mr. Cox and Ms. Thatcher for being here. I think you said the most critical thing. You are not alone. And I commend your courage and your dedication that you will stand up and talk about what happened in your family so that other families that are going through the same thing have an opportunity to say, "It is not

just me. It is something larger; it is something bigger." And so I just want to say thank you very much for doing this.

I also want to say to Dr. Mian, to Ms. Traub, to Mr. Hanauer, and Mr. Hill, thank you for the work you do that talks about these powerful forces at work in our country and the importance of getting our policies right so that we are growing a middle class, very much as you say, Mr. Hanauer, growing from the middle out. That is the key to our economy. It is also the source of our identity, who we are as a people, what we are as a country. It is about our opportunity. It is about how we build.

What you have talked about today hit on the things that just keep pounding on America's middle class: what has happened on jobs, flat wages, lost jobs, what has happened on housing, high housing costs, and then getting slammed in a reversed market, and people still getting caught then in upside down mortgages.

We could have talked about rising health care costs and how that puts another squeeze on the family and the costs of being able to get your children educated, whether we are talking about preschool or whether we are talking about postsecondary education. It is all out there. The consequences are clear. We have got more families living on the edge. They cannot afford to save for an emergency, certainly cannot afford to save for their retirements. It is a hollowing out of America's middle class.

Now, this is something a lot of us have been talking about for a while, but the problem gets more acute when we take a look at each generation coming in, our young people coming in. We now have young people who collectively owe $1 trillion in student loan debt, and it continues to go up every single year. So we have put these young people in the position of saying, look, if you want to have a shot at making it in America's middle class, you have got to go to school. You have got to go back, you have got to get that education. But you are on your own to pay for it. You are going to have to borrow more and more money to do that, and then hit an economy like this.

So what I would like to ask you about, what I would like you to talk about from your different perspectives, is this question: What happens to America's middle class when each succeeding group of young people is carrying more and more debt as they start their adult lives? Can we just talk about that for a minute? And maybe start with you, Ms. Traub. You mentioned student loans a little bit, so could we start with you?

Ms. TRAUB. Certainly. There is some research; the Consumer Financial Protection Bureau recently came out with a study of young people who owe student loan debt and looking at the extent to which they are not buying homes, they are delaying marriage, they are delaying starting families, delaying—I do not know that they looked at delaying small businesses, starting a small business, but one would expect that that might be another consequence. And it is, as you say, a hollowing out of the middle class, and this level, the sheer level of indebtedness is a big part of that.

In addition, credit reports and credit standing is eroded, and one issue that I have had an opportunity to look at is the use of credit reports for employment. And so an employer looks at a credit report and may decide this person has too much debt. They are not

looking at the score. They just see a large burden of student loan debt and may decide not to hire that person. And then you have gone to school to improve your chances of being hired and find that that actually undermines your application for a job. It is very troubling.

Senator WARREN. Dr. Mian.

Mr. MIAN. I will just add one thing. The question of increasing debt, whether it is student loans or housing loans, basically reflects the goods and services that people used to consumer that they can no longer afford to the same extent and, hence, they are borrowing. It is a simple reflection of that fact.

Historically, if you track debt to GDP, private debt to GDP, you see two peaks: one in 1929 and the other one in 2007. And we know what happened to the overall economy post-1929 and post-2007. What I am basically emphasizing is that when you see a rapid increase in private debt, that increase is not sustainable economically because it is basically reflecting reduced market power or reduced purchasing power of a core group of the population, and at some point they are going to collapse. And when that happens, it is going to affect everyone, because the demand is not going to be there anymore because they are not going to be able to borrow anymore, so they will stop going to school, they will stop buying homes, or they will stop buying cars, and everyone is going to suffer the repercussions of that. That is what happened in 1929; that is what happened in 2007.

And so it is that process that we need to look at carefully, and even when we allow our credit markets to function—and, of course, they need to function and they should function. But this is exactly the point that I was trying to emphasize in my earlier testimony as well, that we need to set up these markets in a way so when they overstretch themselves, they do not lead everyone to collapse along with them. So we need to put in these safety valves.

For example, student loans, I mean, this is a big ticking time bomb because people can get out of other kinds of debt through bankruptcy, but as you know, they cannot get out of student debt. So I worry about the situation that if this thing collapse and people are unable to find enough jobs which are paying enough to pay back their student loans, what is going to happen to the social fabric of this society as the lenders and the courts go after them, as they would be required to? So it is a very serious problem that we need to look into.

Senator WARREN. Thank you.

Ms. Thatcher, I see you shaking your head. Would you like to add on this?

Ms. THATCHER. Yes, I just have a few comments. Me, I have several friends that have gone through tons of schooling for their teacher's credential or business and things like that. They are hitting almost 30 years old, and they are still living in their parents' home due to that, because when they get out of college, they have so much debt. And then they are getting jobs due to the economy downfall that are not paying enough for them to live and pay their debt. So they are hitting 30 years old still living with their parents. And, I mean, if their parents are not doing that well, the whole family is not doing that well, and so they end up either not going

back to college or they are stuck with a job that does not pay anything. It is kind of like a cycle, and I see it so, so often.

Senator WARREN. That is a very important point.

Ms. THATCHER. Yes.

Senator WARREN. Ms. Melson, would you like to add to that?

Ms. MELSON. Yes. As a matter of fact, me and Pam had the opportunity to talk to a group of seniors, and it is incredible how knowledgeable they are. They understand and they are living in fear. They are afraid. I know my own children know that I was a pretty good student. They know that I went to college right out of high school. They also know that 20 years later I am still paying off that debt. So it is really scary. And it is scary for them, and they live with the unnecessary fear that they should not have to. They should be going into college prepared to study, not to think about the financial burden.

Senator WARREN. Twenty years, and you are still paying for this.

Ms. MELSON. Yes.

Senator WARREN. Mr. Cox, did you want to add anything? Go ahead.

Mr. COX. Well, I find it interesting. I was just talking here the other night to a person, and they mentioned that they had a college debt, and, quote-unquote, they will be paying for that college debt the rest of their life. And, you know, when the college costs come to a point where there is no—I guess the right word is "residual" value, I guess, you know, where—you know, the idea was you go to get a college education, which increases your opportunity for higher income, so to speak, but now the college costs, the college loans are preventing these people to be able to see the benefit of a college education, you know, the wait. And that is kind of where I see it.

You know, I was fortunate in a sense where I paid my way through. I worked and paid my way through. But a lot of folks cannot do that.

Senator WARREN. When college costs were a lot lower.

Mr. COX. Yeah, yeah.

Senator WARREN. When you and I went. I paid $52 a semester in tuition.

Mr. COX. Yeah, I think when I started, it was like $68.

Senator WARREN. State schools, they were supported back then.

Mr. COX. Yeah, yeah. It was affordable.

Senator WARREN. That is right.

Can I ask Mr. Hanauer to put this——

Mr. HANAUER. Yes, I would love to respond, and to respond directly to Senator Heller, because I did not say that raising taxes created jobs. But what I did mean to point out is that if wealthy people like me and corporations that were profitable paid taxes at rates as we once did, then the middle-class families could afford to send their children to colleges without taking on an aggregate of $1 trillion worth of debt. And not only would middle-class families benefit massively from that, but eventually I would benefit massively from that because then they would not have to pay debts. They could buy products from my companies and create a virtuous cycle of increasing returns that capitalism is capable of doing. That is the point. The point is not should taxes go up but who should

bear the burden in a way that animates a virtuous cycle in the economy.

Senator WARREN. Right. I want to thank you all, and I just want to note we are 3 weeks away from the interest rate on new student loans doubling. We are here today on the day that Congress could have prevented that. The U.S. Senate could have started the bill to prevent that. And we have just returned from a vote where the effort to try to keep the student interest rates the same failed.

The U.S. Government is scheduled to make $51 billion in profits off our students this year on their loans. This is obscene. And what it does is both economically wrong, as you rightly point out, and morally wrong. We have to do better than this for our children. Thank you.

Thank you, Mr. Chairman.

Chairman MERKLEY. Thank you, Senator Warren.

Before I ask my question, I think I mentioned earlier this is the first hearing that I have chaired. It is also an unusual moment in which my partner, my spouse, Mary Sorteberg, is able to join me, and she is sitting in the back. I do not know if she will be here by the time I get to my next question, so I just wanted to say I am delighted that my partner could join us today.

[Applause.]

Chairman MERKLEY. Now, this question we are all discussing is one that our family talks about all the time. We live on the east edge of Portland. We live in the David Douglas community, David Douglas High School community. A number of the families that—of course, in addition to the three families we have today, there were five other families in the "American Winter" film. A number come from our working-class community. And so we see this directly. We impact that the three of you are describing. And whether we are looking at it from the front line that you all are on or from the analysis that our experts have brought today, I think this is something of grave concern. Mr. Hanauer talked about a virtuous cycle. I am concerned about a cycle in which the message becomes one that depresses aspirations, that essentially our parents and our children say, you know what? There are not jobs out there. You cannot risk incurring student debt that will follow you and haunt you the rest of your life. Look what is happening to the neighbor who is 30, still living at home in the basement, not getting married. Better to try Track X or Track Y, or just that the system is so fixed against middle-class families that it will only be with—it will be like winning the lottery if you ever get a good job. That cannot be the message that a prosperous Nation is based on, and the system, therefore, is obviously broken.

And so as I think about these pieces in which people are being set back by unanticipated health care expenses, which we have not talked about yet but is extremely common, about unexpected setbacks in living-wage jobs, and two of our families notes that the jobs that are reappearing are half what they paid before, both from the personal side on the front line as parents and from the experts' side, I wanted to just ask you to address any aspect of this kind of are we in danger now of a national cycle of depressed aspirations replacing the motivating vision of the American Dream. And if there is one thing you could say that we need to do to change

where we are at, what would it be? I will take anyone in any order they would like. John, do I see you reaching for the button? Go ahead and turn on your microphone.

Mr. COX. Thank you. You know, one of the first—just listening to you right there, a few years back I was working for the State of Alaska, and one of the programs that they had going there was called the Job Training Partnership Act, JTPA. I do not know if it is still around. But, anyway, it was a national program, and what I specifically remember was there were paper mills in Sitka, in Ketchikan, Alaska, and I think there was a timber mill in Wrangell, Alaska, where they all got shut down because of the Tongass National Forest preservation. And this JTPA, what it did was it took these folks that were employed in the paper mills and the lumber industry and retrained them in something, you know, in a different industry. In other words, what it did was, you know, it helped keep them off the unemployment rolls and gave them a new tool to pursue another career. I do not know if something like that is still around or not. That is just one example right off the top of my head.

You know, so in that respect, it was the Government helping, but at the same time, it was keeping these folks on their feet. And, you know, this is extremely outdated. It would be like the New Deal with FDR. You know, he implemented some jobs out there, you know, Government-assisted jobs, basically to get people employed. I do not know the mechanisms. I wish I did. You know, that is why we kind of lean on your folks, I guess a little bit, and we do appreciate you, believe me. But, anyway, thank you.

Chairman MERKLEY. Thank you, Mr. Cox.

Mr. Hanauer.

Mr. HANAUER. It is a fantastic—it is the question, and I just wanted to say that when Senator Warren talked about rising college debt and that crisis, I think it is important to acknowledge that there is a parallel crisis, which is that we have structured our economy in a way that the only way in this country today that you can avoid a life of poverty is to go to college, and that is insane. It is insane to have an economy where the only possible way out of poverty is to take on $100,000 worth of debt to go to college.

And I think that, you know, what we have to do is not just to pretend that if we put a few more people through college that we are going to fix this problem. We have to deal directly with the crisis of low-wage work. And the fact that most of the jobs our economy is creating today are jobs that have poverty wages.

So if we—you said one thing? If I was God and could do anything I wanted, I would raise the minimum wage to $15 an hour over 3 years, starting tomorrow, because the only difference between—we imagine that workers in former years who worked for auto companies and made good middle-class wages somewhere were magically different or worked for magically different companies than a Starbucks employee. It is not true. The only difference between those workers is power. It is power. Those two enterprises create exactly the same amount of value in society. They are equally profitable—in fact, Starbucks is probably more profitable. The only difference—the only difference between those workers is their ability to extract part of the value created by the enterprise. And if you

raise the minimum wage to $15 an hour, you would inject close to $500 billion into the economy from people definitionally who could afford it to people who definitionally desperately needed it and animate a virtuous cycle of increasing returns. All that money goes to the very businesses that have given those increases in wages. And now there is $500 billion that you do not have to tax people to send food stamps to people who work for Walmart because Walmart pays such low wages.

Again, so you get this incredible two-fer where you change the nature of work, you give people a living wage, you ask the market to bear the burdens. You do not have to ask taxpayers to make up the difference. And you start this cycle of increasing returns. You generate demand, more workers, more wages.

Ms. TRAUB. I would love to——

Chairman MERKLEY. Thank you. Let us go back and forth between the family front line and the experts. Ms. Thatcher.

Ms. THATCHER. Thank you, Chairman. I just wanted to add to his. He says that let us go ahead and raise the minimum wage to $15 an hour. I just want to ask, do a lot of you know, I mean, how to live off $15 an hour? Because I do. My husband makes $14.50, used to make $20-something. He now makes $14.50. We have two children, and we are supposed to survive off just that. I tried to get a part-time, full-time job. Paying day care, it is unrealistic, basically. I do not know if anyone in here has ever had the sad opportunity to think: How am I going to pay for a roll of toilet paper? How am I going to buy a razor? You know, just the simple necessities that you need, because $14.50 is not a lot. But if you do raise it, those students coming out of college, I mean, that is a great opportunity. I mean, that is a starting point. And I just agree. I agree with it. That is a wonderful, wonderful thing.

Thank you.

Chairman MERKLEY. Thank you.

Ms. Traub.

Ms. TRAUB. Thank you. Yes, I also would love to build off of Mr. Hanauer's point. The other difference between the Starbucks workers and the UAW workers, it is partly the minimum wage. It was higher at that point. The other reason that working people in the auto industry had that power that you are highlighting is a strong union, of course, and that is the other place that policy I think can make a tremendous difference, is in rebuilding that power to organize and to join a union. And I know right now that President Obama's appointees to the National Labor Relations Board are awaiting Senate approval. I think that is tremendously important. And having looked at the research on the challenges—and I did work at one point for a union in New York City—the challenges of trying to organize today, it is not a right that people really have anymore in this country. The National Labor Relations Act is still on the books, but it is not—it has been hollowed out. The right to organize is not something that people really have anymore, and neither is the right to bargain collectively. And rebuilding that right is what it would take to give working people power in this economy again and the ability to get some of the benefits of this very prosperous country that we all still live in.

Chairman MERKLEY. Thank you.

Ms. Melson.

Ms. MELSON. And just directly related to your initial question, the depression, I actually have a story. When I was employed with WorkSource, one of my coworkers was kind of training her daughter or preparing her daughter for the workforce. There were a lot of people who came through WorkSource because, of course, it is connected to unemployment, and they were wanting to further their education. They wanted to go into a new field. And she was deathly against people going into a new field trying to get an education, and her thing was, "I am not telling my daughter to go to college." She is, like, "Why should I? It is no guarantee that she is going to get a job, and then she is going to come out with debt." Her daughter is 16. Why would you feel that way?

But I can understand the hopelessness. You know, I can understand how she feels, like, "I am not going to set my daughter up for failure. So at 16, I am going to tell her, no, you do not pursue an education. You go out and you work."

And then where is she going to work? At a minimum wage job? And she will be stuck in that pattern for the rest of her life. So that is just a direct answer to your question, is hope—people feel hopeless.

Chairman MERKLEY. Thank you for sharing that story.

Mr. Hill.

Mr. HILL. Certainly in different walks that I go through in my job, I deal with many people who have struggled. In Nevada, there is no place folks have struggled more over the past 4 or 5 years.

On the other hand, we are pretty optimistic State, and I think I would point out that, you know, we have looked at developing our economy differently. And I really think the country needs to as well.

There are alternatives between a 4-year college degree and no further education at all. We are focused on, for example, certificate completions that offer great opportunity at lesser cost. And I think it is a significant alternative to the reality of the level of debt that you may get into if you go to college and do not know what that is going to result in as far as an investment and a payback.

So at the State level, we kind of look at things on a reality-based situation. This is the way it is. What do we do with this? How do we get our people back to work? But we feel pretty optimistic about where we are headed. We just need to earn it.

Chairman MERKLEY. Thank you, Mr. Hill. And as your department studies the State, any evidence of the problem I was alluding to of people starting to say, you know what, as Ms. Melson was saying, we are not going to have our kids aspire to a college degree because of the debt that they will potentially face. Are you starting to—I realize optimism may be strong, but is there also an undercurrent of deep concern about whether or not there is a path, unless you are extremely lucky, if you will?

Mr. HILL. Certainly, Senator, if after having been through 5 years where—the statistics of their net worth having on average dropped from $150,000 to maybe $60,000 or $70,000, if they are fortunate enough not to be in an underwater mortgage, that period of time takes a toll. We need to see an economic recovery. I think at this period of time, we are certainly—as well as the rising cost

of a higher education degree. One of the focuses in Nevada is on the Pell grant. It currently pays for approximately 64 percent of a college education where 20 years ago it paid for about 98 percent. You were talking earlier about the shift from grants to loans. Those who cannot afford college need that kind of help. So there is some of that, certainly. But there are also alternatives.

Thank you.

Chairman MERKLEY. And, Dr. Mian, everyone else had a chance. Do you want to speak to this?

Mr. MIAN. Yes, I will just briefly say that, you know, the American Dream is a wonderful idea, and I have personally benefited from that. It is a country I love precisely because of that notion. But I do worry that that dream is slipping away from more and more people. And statistically, if you look at mobility, which is, you know, from a lower-income family going into a higher-income bracket, that mobility in the U.S. is now lower than in Europe, just to give you an example. Now, that is very worrying. Aspirations at the end of the day are based on what is happening on the ground in terms of the reality, and you have heard many stories that reflect that.

I think given that situation, we also know that in terms of job creation and in terms of higher-income jobs, they do tend to be sort of jobs based on technology and so on and so forth. So to give lower-income families a chance to make it, education is the centerpiece. And we cannot have a system where the only way to get an education is to give up an arm and a leg to the student loan market. I think we need to revisit that piece very carefully.

Again, if you go back to Europe and you look at Germany, take Germany as an example, they suffered a lot through the recession in terms of GDP, but they protected their labor market, and they invest a lot in their higher education. And, again, it is a hybrid system, college plus apprenticeship and so on. Different things work for different people. But we need to have resources that the society gives to us 15-, 16-, up to 20-year-olds, to say, OK, we will give you a shot, now you go ahead and do what you can. And, of course, if they are successful, we will all take a piece of that. You know, that is how the Government works. But we need to have that system in place, and we cannot rely on private debt, then outsource the problem of education to the private market. That is not sustainable.

Senator HELLER. Thank you.

Mr. Hanauer, you and I will probably agree to disagree.

[Laughter.]

Senator HELLER. I do not want to go in circles on this, but I do appreciate your insight. I really do. And I think there is some truth to what you are saying. We probably philosophically come from different places, and I do believe that the key to success is to make sure that this economic engine is working. And I believe history has proven, back in the 1960s under President Kennedy, when he lowered taxes, that the economy took off and we had more revenues in this Federal Government. The same was true in the 1980s under Ronald Reagan. When he cut taxes, we increased revenue, and the purpose of that, of course, and that funding and the upside to it, of course, is that we were able to pay for higher education and

have more funding available to some of these issues. So I guess we can agree to disagree, but I think history probably is more compelling when it talks about making sure people have more money in their pockets. And we have a progressive tax system here in this country, and it ought to remain progressive. I agree with that. And I do believe bits and pieces of what you are saying with the engine being the middle class, I would not disagree with that at all.

But I want to change topics for just a minute because I want to talk about the American Dream and, Dr. Mian, what you were saying in your testimony. I want Mr. Cox to stay in his home. I really do. And I think everybody here wants you to stay in your home. We have had over 400,000 people in the State of Nevada receive foreclosure notices. Four hundred thousand people in Nevada—that is one-third the population of Maine—have received foreclosure notices in our State. And you can imagine the economic impact something like that has, and we could have brought a myriad of people just like yourselves here talking about the issues.

Now, I do not know if you had a fixed loan or a variable loan, but to your point, Dr. Mian, you talked about your solution. Your solution on a 30-year loan was to make sure that there was downside protection; and, second, to make sure that there was a 5-percent net capital gain for the lender on the sale of the home.

I had a former Chairman of the FDIC in my office yesterday, and we had a brief discussion, and she wrote a book recently talking about had we taken aggressive action as a Government—and this would have been pretty aggressive—on these variable loans, had we gone back to the original rates—as these were progressing, people were losing their homes. Had we gone back as a Government and said, OK, we are going to go back to the original rates on these variable rate mortgages, we could have saved a lot of people and kept a lot of people in their homes, and the impact of that that would have had nationally to where we are today. Now, it is probably too late to do it. Clearly it is too late to do it. But she believed at the time, had we stayed with the original rates that got people into these loans, that we could have saved a lot of homes, saved a lot of individuals, and a lot of economic turmoil that was caused by this housing problem.

Do you believe that was a solution at that time?

Mr. MIAN. So I know these numbers very well because I look at these numbers for a living. Of course, if you go back to a lower rate, you would have helped some of the homeowners. I do not disagree with that at all. But I do not believe it would have been sufficient to have had a serious dent in the problem. The core issue was underwater homeowners, which is a question of where the principal is relative to the value of the home, and so you had to address that key issue. So it is not just about the interest rate that you are paying on the principal. It is about the amount of the principal itself, number one.

Number two, from a legal perspective—and I am sure the private market as well as the legislature appreciates that—it is almost impossible and not advisable to ex post come in and tell people, you know, let us change the terms of the contract. That is why in my proposal, what I was suggesting was an ex ante solution where you go into the contract thinking about these possible scenarios and

saying if that happens, the entire mortgage payment, which, as you know, includes the principal piece plus the interest piece, adjust proportionately downwards in case house prices decline enough. If we had had that kind of a system, we would have completely avoided the underwater problem, the foreclosure problem, and everything else that followed as a result of that.

So I sincerely believe that, you know, we need to take that kind of an action looking forward, and it is sort of a very conservative principle. It is a market-based principle. The Government would remain out of it.

I will say one point, though. I think the Government needs to kind of promote or encourage this kind of mechanism, and I will just give you one example. We currently have mortgage interest deductibility, which is very powerful as an incentive for people to kind of go for the 30-year mortgage. The proposal that I am giving, for example, will not work very well if this new contract does not count as debt because then it will not have that tax advantage.

So I would add the piece that—you know, I would love if I had the power—obviously I do not, so here is the idea: Have the proposal that I gave you, get rid of completely the current interest deductibility on standard mortgages, and instead move that deductibility to the mortgages that I am talking about. So the entire market—from this point onward, you know, the entire market will shift to what I am referring to as socially responsible mortgages. And, you know, those payments they can deduct and so on, and now we will all be protected. The middle class will be protected from all of this mess, the foreclosures mess and everything else that followed, the next time there is a downturn in the housing market.

Senator HELLER. OK. I would like more information, if I can get that from you at some time, what you are talking about.

Mr. MIAN. Absolutely. But, Mr. Cox, you were shaking your head. Some of you were shaking—is there anything that this Government has done to make it easier for you to stay in your home? I mean, we have had a myriad of programs that we have passed through both the House and the Senate here, signed by this President. Has any of it helped you out?

Mr. COX. Well, personally, I have gone to about every—through just about every option I can think of.

Senator HELLER. Is your home currently underwater?

Mr. COX. Yes, it is.

Senator HELLER. It is underwater.

Mr. COX. Yes.

Senator HELLER. See, this was the problem we had in Nevada.

Mr. COX. It is about $150,000 underwater, last I checked.

Senator HELLER. And I do not know what that percentage is, but——

Mr. COX. It is about 70 percent, maybe 65 percent of what I owe.

Senator HELLER. And that is why you probably do not qualify for any of these programs, because you are too far underwater.

Mr. COX. Right.

Senator HELLER. Most of these programs were based on not being that far underwater.

Mr. COX. Right.

Senator HELLER. And that is the problem we have in Nevada. These people are too far underwater, so all these Government programs that are out there, they are taking a look at how far they are underwater, and they are saying, hey, we cannot help you, it is too deep.

Mr. COX. And I would like to interject also, again, with this Wells Fargo and, what was it, the HARP or the HAMP program— I cannot—personally I thought that was a farce, and, you know, they string you along, having you send in tons and tons of documents. And then they—about 30 pages each time, and then they say, well, you forgot to sign this one piece of paper, you have to do it all over again. And this went on and on and on. This has been 2 years of doing this, and——

Senator HELLER. And I have seen some of that with the banks. I am having friends that are making their payments, and they are getting called by their banks saying, "We would like to refinance your home." They did not even request it. But what they are doing is they are going by people that are making their payments and asking them, "Let us refinance." They are not helping those that cannot make the payments, who are having difficulty making the payments. They are helping those that are already making the payments, and they may be underwater, but they certainly did not request help. They are going to people who are not requesting help and refinancing their loans.

Ms. Melson.

Ms. MELSON. I do know of a couple of federally funded programs that are there for mortgage payment assistance, and I do actually know of a couple stories through 211 where the Government has stepped in and has helped people with their mortgages. So there are those programs, but they have very, very, very strict requirements. And so if you do not fall into those guidelines, then you are not going to be assisted. But there are a few out there.

Senator HELLER. Very good.

Mr. Chairman, thank you.

Chairman MERKLEY. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. So I would like to go back to this conversation about wages, that low wages have been one of the reasons that we have hollowed out America's middle class. And I thought it was a great conversation about the minimum wage and how valuable increasing the minimum wage could be.

You know, we need to remind ourselves, with a Federal minimum wage right now of $7.25, we have a bill pending to raise it to $10.10. I am a cosponsor on that bill. I support it. But it did not have to be there. I see you doing that, Mr. Hanauer, get that number higher.

[Laughter.]

Chairman MERKLEY. Senator, didn't you propose $20 at one point?

Senator WARREN. What I did is I pointed out that if the minimum wage had been linked to productivity starting back in the late 1960s, if we had just linked it to productivity, how much more each earner is working, our earners collectively are working, it would now be $22 an hour.

Now, I did not advocate and I am not advocating a $22-an-hour minimum wage, but the question is: Why didn't it rise? Why didn't it go up? If productivity went up, why didn't workers' earnings go up at the same time. Why didn't they get a piece of the pie that did not have to be a bigger slice but it would grow if the pie was growing?

And I think you hit a big part of that, Ms. Traub, when you said, "Because the workers do not have any power." And this is what happens with declining union membership, that they cannot bargain collectively; when they do not bargain collectively, they are not able to get out there and fight for wages—wages that affect not just those who are in unions, but they affect everybody. They help set the standard for everyone.

So I take this very seriously, and I see the importance of supporting our unions, supporting the right to collectively bargain, the importance of getting our NLRB representatives through, and I should say the Secretary of Labor so that we have a functioning labor policy here.

But I want to go back to a different part of this because I do take this seriously. The constant refrain is, no, we cannot raise the minimum wage because it will cost jobs, there will be fewer people employed. Now, there have been academic studies, very serious, very rigorous academic studies. For example, those that study what happens in a metropolitan area that is split and half of it is in one State, half is in another, and the minimum wage shifts in one State, goes up in one State. And basically they find there is no job loss or sometimes a very small job loss.

So the major argument for not raising the minimum wage, that is, it will cost jobs, at least the academic studies seem to show is not right. What I thought I would give you the opportunity to do, though, is talk about it from your perspective. Mr. Hanauer, you have got a vision about how this works. If we raise the minimum wage, explain why it is that we will have more people employed or at least the same number of people employed. Mr. Hanauer.

Mr. HANAUER. Sure. Great question. So the first thing to recognize, I think, is that most traditional economics and our perspectives about economics are rooted in a foundational misunderstanding about how these systems work, that they are linear and mechanistic, and if one thing goes up, another thing must go down.

Nothing could be further from the truth. You know, capitalists need unions in the same way that animals need plants. If workers have no money, capitalists will have no customers. And I am a big supporter of unions. I am. But raising the minimum wage is a far more economically efficient way to generate growth, because everybody is on the same footing. Every company competes equally with other companies. And, look, you know, the problem with unionization is if one industry is unionized and another one is not, that creates a very difficult existential threat to one of those companies.

The other idea is that if you raise these wages you will outsource these jobs, but the simple truth is that virtually every low-wage job in America is a service job that can neither be outsourced nor automated.

So when you take these things together, by raising the minimum wage, yes, prices will go up a little bit. They will. But since every-

body who is going to—so there are two classes of people. Either the people who are getting a big increase in the minimum wage will now be—who get a 40-percent increase in their wages will easily be able to absorb a 5-percent increase in prices. And people who did not get a raise but could afford it anyway, right? And the thing that is so obvious but is missing from these academic reports is the virtuous cycle thing. When minimum wages go up, workers have more money. And when workers have more money, they buy things from the very companies that raised those wages, generating more demand and more jobs. And that is why it works. And that is why it is such a crucial part of policy.

Senator WARREN. I appreciate that.

Anyone want to add to that?

Ms. TRAUB. I would like to add to that. I do not think we disagree about what a good idea it is to raise the minimum wage. I just want to point out that, in addition to minimum wage workers then making more money, it pushes up other wages across the board. Employers——

Mr. HANAUER. A spillover effect.

Ms. TRAUB. Yes, there is a spillover effect, and so employers raise wages for other workers. If we feel that $15 an hour is still a low wage, it is hard to get by even on that, even though that is more than twice as much as the Federal minimum wage is now, many workers would make more than that. Workers who are currently making $15 an hour would have a lot more bargaining power themselves in the workplace. And so it is not just something that lifts up minimum wage workers. It has a ripple effect throughout our economy, throughout the low- and middle-wage workforce.

Senator WARREN. All right. Dr. Mian.

Mr. MIAN. Just a quick point. First, in terms of, again, the data, statistics, if you look at the U.S., the share of output going to labor has declined tremendously in the last 5 to 7 years, and it is at record lows. So just, I mean, something is happening in terms of this balance between capital and labor. The share of profits is very high, and the share going to labor is very low. So there is something going on, just to point that out.

In terms of the minimum wage, given that we have agreed collectively as a society that there should be some minimum wage, I think a better approach might be as opposed to coming and arguing about a fixed-dollar number every few years to, as maybe you suggested it as well, index it to something that is meaningful so we do not have to come back to this issue, and so it naturally goes up with something like inflation or cost of living, or whatever you want. We can argue about that. But, you know, that I think is the way we should think of—in the long-run sense, we should think of minimum wage.

Thank you.

Senator WARREN. Good. Anyone else?

[No response.]

Senator WARREN. Good. I just want to say thank you again to all of you for being here. I want to say thank you, Mr. Chairman. I am going to go fight about student loans for a little while now, so please excuse me. But keep up the good work. Thank you. Thank you all.

Chairman MERKLEY. Thank you very much, Senator Warren.

We are going to have to wrap up by about 12:25, so I am going to ask a more contained question than I asked the first time, and I think Senator Heller has one more question he would like to ask, and then I will ask a final question and we will wrap up.

Mr. Hanauer, I wanted to ask you about the virtuous cycle that you were talking about and how consumers, the middle class drives this production cycle. One rebuttal that I have heard so many times would go like this: If I as a company manager or owner can cut costs and have profits at the end of the year, and maybe those costs are labor and maybe they are tax costs, if I can cut those costs, I now have this money, and I go, You know what? I can increase the size of my sales force; I can hire three more people to do research on the next generation of the product; I can do more advertising, which will increase demand; and then I will be able to have more people building the thing. And voila, I will have more jobs and society will have more jobs."

I think that is the most common presentation of the opposite version of cut expenses in any way you can and you will produce more jobs.

Would you like to kind of examine that and see where you see the shortfalls and strengths are in that vision?

Mr. HANAUER. Sure. So the only thing that compels a capitalist like me to add labor is the absence of alternatives to doing it to meet future customer demand or present customer demand. And all capitalists are profit seeking. We seek to maximize profit. I am a huge believer in capitalism. Sometimes I talk and people think I am not, but I am a huge—capitalism is the greatest social technology ever invented for creating prosperity and ennobling the human spirit. But it comes in a lot of flavors, some lousy and some good. And the thing is that if it was true that more profit led to more employment, then it could not also be true that American corporations are more profitable than they have ever been in history and unemployment and underemployment is also higher essentially than at any time in history. And that is because these two things are not linked. They are not linked. There is a rate limit to how many people you can employ to do research in the future. There is a rate limit to how many people you can employ to think about things. Capitalists make investments in people when demand makes that make sense.

You know, there is this idea that capitalists—you know, the verb is "give" people jobs, right? You hear this all the time, and you are left with a sense that somebody like me gives somebody a job like I might give you wife a bouquet of flowers at Valentine's Day. Nothing could be further from the truth. You know, you do not give somebody a job. You reluctantly agree to maybe employ them because you cannot do the work yourself.

And so it just is categorically untrue that we need to make capitalists sort of limitlessly profitable so that they will generously give other people in the society jobs. It just does not work that way. And there is, you know, indisputable evidence that it does not work. We are in that circumstance right now. Corporations are sitting on $2 trillion worth of cash—$2 trillion worth of cash. Cor-

porate profits are at a 50-year high, and labor is falling like that. This is just not how it works.

Chairman MERKLEY. Thank you.

Senator HELLER. Thank you, Mr. Chairman. Again, thank you for this hearing. This was great. And I want to thank all the witnesses for taking time. Again, I think all of you are expert witnesses, and I certainly have learned something from today's hearing.

This is a Banking Subcommittee, so I want to talk about banking for just a minute. We passed several years ago a pretty onerous piece of legislation called "Dodd-Frank" that I think hit the industry pretty hard. And through the last 4 or 5 years in the State of Nevada—and I am going to move this question to you, Mr. Hill—we have had some rough times, and one of the downsides to this tough economic moment that we are in is that we have lost half of the community banks in the State of Nevada. We have lost half of them.

Now, these are small banks. These are the Main Street banks. It is not Wells Fargo. It is not Bank of America. It is not Citibank. These are the small banks. And these are the banks that know their communities, and these are the banks that make small business loans. Wells Fargo does not make small business loans. They may from time to time, but they are more worried about the bigger guys. Bank of America, the bigger guys. Citibank, the bigger guys. But we have seen a real downturn in the small community banks in our communities, and I think that is affecting our ability for economic growth. When these small businesses are coming to us all the time saying, "I cannot get a loan. I need some rotating cash or capital so that I can keep my business prosperous." The trend.

You are president of a bank, Mr. Hill. What do you see? And do you see any change coming?

Mr. HILL. Senator Heller, you mentioned that you had met yesterday with former Director Bair. I had as well when the bank that I was chairing was struggling because of the economy. We were in the process of trying to sell that bank, which we ultimately were able to do.

We have shrunk in Nevada to, I do not know, eight or ten community banks left in the State, much bigger banks, which, you are right, naturally do not have the focus on smaller businesses that community banks do. And I guess it kind of relates to one of the observations I have today. We did not talk a lot about how to create jobs for the middle class today, and I think that the banking industry is a big part of that. Looking at our innovation and our ability to export, moving away a little bit from—or at least expanding from a consumption-based economy, which is 71 percent of our GDP at this point, I think are all important things to do.

We need to look at what it takes for a small business to create a job right now. They do not have trillions of dollars in cash in the bank. They are trying to make it. And we need to think about that and tie it into the policies that go beyond just job creation so that it really does become our top focus.

Mr. HANAUER. Senator Heller, I——

Senator HELLER. Yes, please, would you?

Mr. HANAUER. I own a community bank, and, you know, I can only share our experiences in Seattle, Washington. We own a bank called Seattle Bank that we bought essentially out of bankruptcy through the downturn, and, boy, I tell you what, it was not Dodd-Frank that flipped that thing over. It was making crazy, irresponsible loans to people, mostly in the real estate business, that did not make any sense. And before you knew it—I mean, you know, a bank can be 70 percent underwater, too, not just a homeowner, and they were. And so we ended up buying this enterprise for a dollar, and we put $70 million worth of capital in it, and we are trying to rebuild—we are trying to do precisely what you are pointing to, to rebuild a community bank that gives small businesses loans and stuff like that.

But I will tell you, I can just share with you what our challenge is, and that is that the country, particularly the large institutions, are so awash in capital that we cannot compete, that the loan rates that people are willing to make, at least to medium-size businesses, are so low that, you know, it just does not make any sense to loan the money.

It feels like there is plenty of money out there for well—you know, for well-managed enterprises doing things that a reasonable person would want to finance, to me right now personally.

Senator HELLER. Thank you very much.

Chairman MERKLEY. Thank you very much, Senator Heller.

And I am going to give the closing question, and we will close this hearing. But I must say this has been an excellent dialog between experts and families on the front line, and the questions raised are huge questions for the future of our Nation.

There are so many pieces of this that merit deeper exploration: the creation of living-wage jobs; the challenge of college education, the cost of it; empowering consumers to drive an economy, and so on and so forth.

I wanted to turn to a piece of this puzzle which is related to changing technology, and I will point to two pieces, and I just want to get some feeling for what you all might have seen and be thinking.

One is that some jobs that you would not imagine could be shipped overseas can now be shipped overseas via the Internet. Mr. Cox, you were in the accounting business where you can ship invoices and have people somewhere far around the world run the QuickBooks software, and it does not necessarily—it is a service, but it is a service that does not necessarily have to be local. And we are seeing this in architecture, legal services, all kinds of areas.

Second is the technology of robotics. I went on a tour, a Made in Oregon tour, to look at many, many manufacturing operations and having seen a bunch in a short period of time, I saw lines where humans were doing the things they have traditionally done, from putting on labels to lids and boxing things up. And I saw lines that basically every single function had been replaced by a machine. And with the advance in computer chips and the advance in actual robotics guided by those chips, it is a phenomenal change.

I will never forget the image, for example, of seeing a woman working to make knives, and she was taking blank knives and putting them into a machine that probably existed for decades. It ro-

tates around, you flip the knife to the other side, rotates around again, you pull the knife off, and you are doing this continuously, there are so many slots, just as fast as your hands can move.

And a few feet away was a robotic arm attached, bolted to the floor of the factory that was reaching over, picking up blank knife blades, grinding them on a large, 4-foot grinding wheel in front of it at a whole series of directions, and then dropping it over into a bucket. No workers' comp, no carpal tunnel, no time off, and so forth.

When I see these converging pieces, I see living-wage jobs affected by forces that are happening so quickly. Now, often when we have had technological changes, it has happened at a pace in which new slots are created within the economy for living-wage jobs so that they are offset, if you will, and society marches forward with more productivity and more wages, we keep the living-wage jobs.

Then we entered three decades from the middle 1970s until now—well, more than three decades now, almost four, in which wages have been flat for workers as productivity has increased, and the last 10 years in which we have seen real wages drop. And so we are seeing something very different now than we saw in the post-World War II era of increasing productivity and increasing wages.

So I guess the question boils down to this: Do we have a challenge with the pace of technological change in having other parts of the economy change fast enough to create replacement living-wage jobs? And if we do have that problem, what can we do about it? Because without—a living-wage job is better than any program. Each of you has gone through the process, and you had living-wage jobs, you did not need benefits, you did not think you would ever need benefits. And now you need benefits. But it sounded like from your comments you would much prefer that living-wage job, that that is a foundation. I think that that is felt deeply across our society. That is the foundation for a family. You can buy that three-bedroom house. You can proceed to maybe take a family vacation each year. You can pay the sports fees for your kids to participate in activities at schools. And you are not asking for the world. You are asking for what we viewed as the basics of the middle class. And now so many of our new jobs do not provide that. How concerned should we be? Are these problems or are they not problems? Dr. Mian.

Mr. MIAN. Senator Merkley, I think you have asked the most important question regarding the labor market from a long-term perspective. Let me start with what I believe is the most important but least appreciated observation regarding unemployment and the labor market in the U.S.

If you look at the most recent recession or even go back to the previous one, there are two kinds of jobs that have been very well protected. What I mean by that is even if people in those sectors lose their jobs, they gain them back. Those are the two kinds of people—they are either baby sitters or they are scientists.

Now, what is common between these jobs? What is common is that you cannot outsource them. You know, one requires some thinking, OK, you know, do this, experiment with this or that. The other requires dealing with a child, depending on what the child

demands, you have to adjust, you know, what you do for day care, the child—a robot cannot do that. Those two kinds of jobs come back.

When you look at the jobs which are lost and do not come back, those are the kind of jobs that people sometimes refer to as routine jobs that involve routine tasks. And it is not necessarily about skilled or nonskilled, as you yourself pointed out, in terms of accounting and so on. Those are highly skilled professions. But more and more we are seeing the case that they can be turned into routine tasks that can be automated out of the labor market, and that is exactly what is happening. Those jobs are not coming back.

So this is the most serious question from a long-run perspective, number one. Just statistically it is very much there in the data.

In terms of what one can do about it, I think that is really at some level a philosophical question. I mean, take it to the extreme. Suppose machines can raise all the crops, they can, you know, manufacture all the iPhones for us that we need, clean the roads, do everything that we want. What do we need humans for now? We will still have everything that we need for consumption and living, but whoever owns those machines will be like the, you know, super-rich citizen and control everything in society.

So at some level we are gradually moving toward that technologically. That is one view of the world. I do not want to go too far. But I think that raises some serious issues from a governance perspective in terms of how we think of taxes and how we think of redistribution and how we think of a living wage and a minimum wage. So I think there are some very deep challenges from the policy perspective given how technology is moving.

One thing is for sure. We cannot fight with technology. You know, we cannot continue to use the rotary phone while the rest of the world is using iPhones. So you have to adapt to technology, and those are very serious questions. I wish I had more to say on this.

Chairman MERKLEY. Would anybody else like to jump into this? Yes, Amy.

Ms. TRAUB. I would just agree that the rise of technology makes these distributional issue all the more urgent. It could be a utopian world which Dr. Mian has just described in which, you know, robots and machines are doing all of the work, and people sit around and make music for each other and read poetry all day long. And that sounds pretty nice. Or it could be very dystopian, and these distribution—you know, people are starving and do not have a means of support because there are no more jobs.

I think that it is all the more important then to be thinking about distributional issues and making sure that the gains and benefits that our economy is producing are shared more equally than they are now.

Chairman MERKLEY. Yes, Nick.

Mr. HANAUER. So I am in a technology business mostly and have participated in a lot of that disruption, and here is a fantastic way of proving that capitalists like me do not create jobs. I was the first investor in Amazon.com, and I consider Amazon.com to be one of the great economic achievements of our time. It is something I am very proud of. But make no mistake. Amazon.com does about $80

billion in sales, and it employs 60,000 people today, and it has been an extraordinary windfall for me, for Bezos, and for some people who live in the Pacific Northwest. But if ordinary bricks-and-mortar retailers still did that $80 billion in sales and Amazon.com did not do it, then it would not be 60,000 people working. It would be a million, because the difference between Amazon.com and bricks-and-mortar retailers is massive economic efficiency. Massive economic efficiency.

The question is not, What are we going to do about technology? The question is, Who is going to bear the burden of that transition in a society, and who is going to get the benefit? And does it make any sense to have a society with laws and policies that allow a tiny minority of people to get all the benefit of these transitions and to push the costs off on other people in our society? And I think the answer ultimately will be no, not just because it will rip the society apart and destroy the democracy, but because ultimately it is horrible for business, because while it is awesome in the near term that Amazon is doing all this stuff and employing these people and Jeff has made all this dough, those 600,000 or 800,000 or million people who are no longer employed are not buying anything. Right?

And so, you know, we are fooling ourselves. Ultimately what goes around comes around, and we have to find ways to animate this virtuous cycle and not create death spirals. I mean, to me that is the central role of Government.

Chairman MERKLEY. Would anybody else like to jump into the—Mr. Cox.

Mr. COX. Yes, sir. Going along a little bit with Mr. Hanauer over there, I worked for a major apparel manufacturer there in Portland as a cost accountant, and one of the first things they tell you to do is cut costs. The first place you go to cut costs to make profitability is actually cutting employees. And I was just as guilty as anyone. I was making $60,000 a year, whatever. But one of the ways we did it, these engineers, we ended up putting in a new machine into the distribution center of this apparel place that the machine allowed us to lay off—they had—at peak seasons they had 700 employees on the floor. With this new machine, we were able to cut 86 positions. It not only—you know, like you said earlier, it is not only just your wages. It is, you know, your health benefits, blah, blah, blah. You do not have to pay that with a machine. But it was 86 people. They were making between $10 and $13 an hour. OK? But that is 86 people. That kind of money—and it also increased productivity at the same time, which allowed the corporation to make more money and everything else. But that money was not being—you know, those 86 people not having that money was preventing them—Mr. Hanauer kind of said earlier something about getting feet through the door, you know, for them to buy something. You have 86 people there that are not able to buy anything anymore.

The same situation with me when I was laid off making $60,000. One of the first things I had to do is I had to lay off—I did not lay them off. I no longer took my boy to a day care, and that was a little over $500 a month. Well, day care then turns around. They have to lay off somebody, an employee. Again, there is another foot that is not going through Mr. Hanauer's door to buy products.

So I do not know where the magic potion is here, but, you know, sometimes I kind of think, you know, we are selling people short. Sometimes you—I do not know the solution. But, you know, it is like sometimes these folks have to have a realization, you know, that you have to have a human element; you know, you have got to keep them in there even though a machine might be more productive. You know, I do not know the solution there.

Thank you.

Chairman MERKLEY. Well, on that note, I think we are going to wrap up. We have heard kind of the virtuous cycle, and we have heard the death spiral, and it is something that I am so glad you all have come to testify about as we wrestle with the heart of this. How do we build a stronger, better middle class, strong family foundations? We should measure the success of our Nation not by the GDP or the Dow. We should measure it by the success of our families. And many folks like to talk about family friendly policies or family values. Well, having a good job is a very important family value.

And so the issues that we have raised today are ones that I really appreciate Senator Heller and Senator Warren being here to wrestle with. We are going to keep pursuing these issues because citizens across the country demand it. They want us to struggle with what is happening in America and try to put America back on track. So that is a responsibility in a Nation that is a democracy of the people, by the people, for the people. And so thank you for contributing so much to that conversation.

This hearing is hereby adjourned.

[Whereupon, at 1:38 p.m., the hearing was adjourned.]

[Prepared statements supplied for the record follow:]

PREPARED STATEMENT OF DIEDRE MELSON

PORTLAND, OREGON, SUBJECT OF DOCUMENTARY MOVIE "AMERICAN WINTER"

JUNE 6, 2013

Chairman Merkley, Ranking Member Heller, and Members of the Subcommittee: Hello, my name is Diedre Melson. I am an Oregon resident and since participating in the film, "American Winter", I have been hired as an employee at 211info, a non-profit information and referral line people call when they need to learn where to go for help in their community. Every day at work I see firsthand how many people are struggling to make ends meet. I also live this reality as I struggle to raise four children with a paycheck that is never big enough to cover even just the basics.

Growing up I believed hard work would bring rewards. I started working at age 13 in my aunt's hair salon. When I turned 15 I got a job at the Burger King on west Burnside in Portland, OR. I worked there for the next 3 years until I graduated high school. I knew how to work hard but I also knew that education was the key to a good job, which is why I went to college right out of high school. When I was no longer able to afford college I didn't give up. After 2½ years of college I transferred to a career school and obtained certifications in the medical field.

Despite my continual efforts, getting ahead often feels just out of reach. Again, I have worked since I was 13 years old. The only gaps in my resume are due to layoffs, cut backs, and permanent closures at the places I've worked. I was unemployed as a phlebotomist when the company was shut down and 1,500 of us were laid off. I then was unemployed for 2 years before I was able to find work again. And when I did find work, it was for minimum wage. In the meantime I was on food stamps and housing assistance. But that assistance, although very much appreciated, was not enough to live on and cover rent and food. So I would go scrapping 5 or 6 days a week, to make $25 to $50 dollars a day. And scrapping, for those that don't know, is collecting scrap metal on the side of the road. But because that didn't provide much income I would also sell my plasma once or twice a week to put food on the table and to keep our family from being homeless.

Now that I work at 211 I make $13 an hour. And I can relate to folks who call in for help. When the phone rings at work the person calling 211 often has no idea where to turn for help. The people who call 211 come from every type of household you can imagine: single parent families, two parent families and seniors. The people who call are not much different from me. We are the working poor. On a daily basis we go to work and work a full time schedule yet fall short on basic necessities. They, like me, believed that if they did everything right—worked hard, got an education, planed for the future—we would make it.

Just like me, so many people who call 211 have been caught off guard by their situation. My heart breaks for them and it's hard not to cry. I remember the mother who called me from work in tears. She had been making small payments in an effort to stay ahead of her water bill, but when the payment didn't arrive in time her water was shut off. Her 13-year-old daughter was at home and now the mom was going to have to leave work to get the water turned back on. She couldn't afford to pay the water bill and she couldn't afford to leave work but that was the reality she faced on that day.

The next call pulls me into the world of the immigrant worker who isn't making enough to cover her bills but fears asking for assistance because she doesn't know how it will affect her employment. She fears that if she asks for the help she so desperately needs she may lose the job she so desperately needs. Sometimes I have to take a break after a call because the sadness and emotion is just too much. That was certainly the case after talking to the 70-year-old man who was surprised that the Social Security he has worked his entire life for wasn't enough to live on. He was shocked that the $700 he gets is barely enough to pay the rent. Now he is left begging for a hand out. He is too ashamed to apply for food stamps and feels guilty to ask for a hand out with all the mothers and children that are going hungry.

I am raising four children of my own. I love all of my children dearly and they are all special in their own way. I am here to speak out for their future. Today I want to tell you about my son Jalean, an exceptional student-athlete with a promising future.

He takes after me in many ways. He enjoys learning whether it is in the classroom or through life's experience. Standing six-feet-tall and weighing two-hundred-eighty pounds he is a heavyweight high school wrestler, and he is quite the eater. Even though I work full time I depend on SNAP to help feed my family—$13 an hour simply isn't enough to support a family of five. I just found out that my SNAP benefits are going to be cut $30 a month, now that I am making a little bit more. It was already hard to keep enough food in the house for Jalean and the rest of

my children. I'm not sure how I'm going to make up for the $30 reduction. It may not sound like a lot to someone who doesn't have to struggle, but for me $30 is enough to buy three or four whole chickens or a few cuts of meat.

The constant worry is taking its toll on me, but what's worse is that I worry that it's my children who will suffer. Jalean has so much potential: a promising career as a wrestler or a football player and he excels academically. This past April Jalean took fifth place in the Reno Wrestling World Championships. The first year he was invited to go to the World Championship I had to tell him we couldn't afford to send him. We were able to get the money for him to go this year, his senior year, and now he's an all American Wrestler. That should be his ticket to a college education but it's not. Instead, because of cuts to education, and how expensive education has become, if he doesn't get a scholarship I worry that he won't get to go to college.

Without a college education his prospects are limited. He is an intelligent kid and has maintained good grades during his 4 years of high school. I always told him he had to work hard and get good grades in order to get into college and succeed in life. Do I now tell him that all of his hard work was in vain? How do I explain that I can't afford to send him to college and that there are fewer and fewer scholarships for kids like him?

It is my hope that together, as a Nation, we can set aside our political differences and start thinking in terms of human beings. I would hope that we can stop thinking about mine and start thinking about ours—our children, our parents, our communities, and our future. I dream of a future that says if one works a full time job 5 days a week, that on the weekend I can afford to take my family out to a movie, and that at the very least I can afford groceries for the month. I am working very hard and I simply cannot make ends meet. Let's invest in regular families like mine so that we all can hope for a better future. Thanks so much for listening.

PREPARED STATEMENT OF JOHN COX

NEWBERG, OREGON, SUBJECT OF DOCUMENTARY MOVIE "AMERICAN WINTER"

JUNE 6, 2013

My name is John Cox from Newberg, OR. I want to thank everyone for the opportunity to speak on behalf of the deteriorating middle class. I'm sure you will understand that I'm just a humble representative of the millions of families that have been placed in dire straits since the recession.

I was raised from childhood to pursue the "American Dream," and to believe that the United States of America was the greatest Nation on earth. My father, grandparents, school, church, and community instilled this American Dream mantra in me.

"Work hard," they'd say.

"Get a college education so that your family can live more comfortably!"

"Save money for the future!"

"Volunteer and give time to your community." And helping my neighbors isn't simply a slogan to me.

And my father's famous words, "Take care of your job and the job will take care of you."

I knew the rules and tried to live by the rules as they were laid out to me. I took seriously the expectations that were placed on me by my Government, my community, and my family.

Working hard was not exactly a choice. I was raised for most of my childhood on a cattle ranch. Winters required getting up at 4 a.m. to feed our cows before school and feed again before our head hit the pillow in the evening. Spring wasn't easy either as we would take shifts during the night checking on the cows during calving season. My brother and I not only fought over whose turn it was to wash the dishes but whose turn it was to milk the family milk cow.

My father was college educated. It wasn't an option but almost mandatory for me to go to college. I paid my way through college by working full-time jobs, commercial fishing in Alaska, and even sweeping Mt. St. Helens volcanic ash out of parking lots. There were times that I was working two jobs while still attending school. Through hard work and discipline I managed to get my way through school without any financial assistance from my Government or family. Something I was proud of at the time.

Since the time I was 12 years old in 1972, until October 2008, I was never without a job. "Work hard . . . ." "Take care of your job and your job will take care of you . . . ."

I played by the rules. I followed the advice of family, financial advisors, and the Government. I lived within my means in pursuit of the American Dream.

Twelve years ago I invested in a house that was supposed to be the home for my family. I saved for retirement in programs like the 401(k) that was partially set up by our U.S. Government. I made sure I had a 6-month emergency fund in case something catastrophic occurred to my family. My credit rating was somewhere between very good and excellent. I paid my Government taxes with the confidence that it was not only going to be used for the social fabric of all of the U.S. citizens, but that it was also to provide a safety net for catastrophic situations.

Then the economy tanked—and I was laid off from a $60,000 a year Cost Accountant position in October 2008. I wasn't too concerned because I hadn't gone more than a week without a job in over 30 years. I had over $35,000 in my emergency fund to supplement any bills that I owed while looking for my next job. Why worry.

I stayed positive when a month passed without employment. I gritted my teeth but still smiled when 6 months passed.

When my $35,000 emergency fund was exhausted, I cashed in my 401(k), which, after early withdrawal penalties, netted me nearly another $35,000. It was important for me to continue to pay my mortgage and my bills.

I finally succumbed to the realization that I needed help from the U.S. Government and applied for unemployment benefits around March of 2010. Mortgage and monthly bills were no longer being paid as I had to transition to survival mode.

I've been out of work for over 3 years now. Companies aren't anxious to hire someone my age. And Wells Fargo bank is in the process of foreclosing on my house that I've invested 12 years into, as well as a significant downpayment. This house isn't so much a home for me but it's an investment to support my Down's syndrome boy, Geral, during his adult life.

I feel guilty because debts have gone unpaid. I know there are other families that are being affected by me not being able to honor my debts. They might be faceless but I know they are out there.

Still, I haven't given up and I don't sit on my hands. I continue to apply for jobs with the hope that I can again be a contributing part of American society. I have found, however, that jobs similar to my Cost Accounting profession are now only paying $35,000 a year instead of the $60,000 a year salary of 4 years ago. Still, I would gladly accept the lower salary.

I have even applied for minimum wage jobs. The hours have to be conducive to being able to work while my boy is in school. Minimum wage does not pencil out for the breadwinner of the family. How can the Government expect me to earn minimum wage, pay day care for my Down's syndrome boy, and put food on the table?

Until fair wage jobs reappear, I need to put food on the table and keep a roof over our heads. But the policies that are being handed down and, more importantly, the lack of action on the part of our Government, makes it impossible to do so. I feel that it is time for our Government to live up to their end of the social contract. That was the bargain that millions of suffering people around the United States expect.

I understand that funding cuts for the SNAP food stamp program are being debated. How can this even be a possibility when people are going hungry due to no fault of their own?

I know first hand that help for homeowners facing foreclosure is seriously lacking. The Federal Government bailed out all the banks and then the banks simply pocketed the money without any penalty, and without helping folks like me all across this country.

Due to no fault of our own, people like myself are drowning without a life preserver being thrown our way. What happened to that ship that we call the "American Dream"?

Please help.

PREPARED STATEMENT OF PAMELA THATCHER

TUALATIN, OREGON, SUBJECT OF DOCUMENTARY MOVIE "AMERICAN WINTER"

JUNE 6, 2013

Chairman Merkley, Ranking Member Heller, and Members of the Subcommittee: Thank you for inviting me to testify before your Committee to share my experience and perspective on the future of middle class families. I never would have imagined that I would fly to Washington, DC, to testify before a U.S. Senate committee. I also never imagined I would go to a charity desperate for diapers for my two children, or need to get food stamps, but that's exactly what I found myself doing in the fall of 2011 after my husband Brandon lost his job and all of our savings were gone.

The decision to reach out for help was incredibly difficult for my husband and I, but at that point we had no choice. I was a mom in survival mode and I knew I would do anything to take care of my two babies, even if that meant accepting assistance. You see, it wasn't supposed to ever come to that. Brandon and I took our time planning our family and our future.

Before starting a family I taught preschool for 9 years. It was a great job. I loved working with the children and being part of the community. The money I earned from that job helped us build a small nest egg and make the transition to a one-income household once we started our family. The prospect of solely relying on Brandon's income wasn't scary because he had a good paying job and he had never been without work. Being unable to pay our bills just wasn't a reality we contemplated.

Three months after our second child was born Brandon was without an income for the first time in his life. At first we weren't too worried. It was a setback but he had a strong work history and good connections in the community, so we expected he would find work within a week or so. Unfortunately this was in the midst of the great recession and weeks without work or a paycheck soon turned into months.

We did what anyone would do in our situation—we cut back on every possible extra expense and carefully used our savings to pay for the basics like rent, food and diapers for our two little boys. It wasn't long before cutting corners was no longer enough and we were faced with the grim prospect of going without or turning to social services and Government assistance for help. Thank goodness there was help when we needed it.

To be honest, I used to think it was easy for people who depended on Government programs. No work and free food. I had compassion and volunteered, but I thought the public benefit system bred abuse. Now I know there is a different story. The public benefit programs like SNAP, WIC, TANF, and Oregon Health Plan help keep families like me just barely above water. This experience has given me a new understanding and appreciation for what these social safety net programs mean for millions of middle class families that are only a few steps away from poverty, and the real possibility of homelessness.

Being in "American Winter" opened my eyes to how many people are living on the financial edge. I've had strangers say thank you because they recognize me from the film. One woman with children in tow came up to me in the grocery store parking lot to give me a hug. She explained that she was in the same situation and felt so alone and afraid. The stress of not knowing how you are going to pay rent takes a tremendous toll on you and so many people hide their financial struggle out of shame. For her it was comforting to know that she wasn't alone. I've heard the same from my friends after I posted about "American Winter" on Facebook. People I thought were doing fine are in the same situation as Brandon and I and they are grateful to finally be able to talk about it.

I feel that families across this country are in crisis. Something has gone wrong when hardworking people are worried about how to feed their families. Something has gone wrong when it feels like there is no longer any hope for middle class families, and instead of investing in programs that will help families get back on their feet, our elected officials are making cuts. When you cut funding for SNAP, TANF, or WIC you are making the decision to take away what little support people have to keep the lights on, or food on the table. I hope you will consider this and the stories shared in "American Winter" as you're making decisions about how to spend and what to cut. My husband eventually was able to find another job, although he is making far less than what he used to make. Now, even with full time work, we still struggle to make ends meet. My experience has taught me that when a family member loses a job, the assistance we received is a true lifeline, and the difference between sinking and having the chance to get back on our feet again.

Thank you again for taking time to hear from me and consider what it's like for formerly middle class families who just need to know there is some hope.

PREPARED STATEMENT OF ATIF MIAN

PROFESSOR OF ECONOMICS AND PUBLIC POLICY, PRINCETON UNIVERSITY

JUNE 6, 2013

I thank the Senate Subcommittee on Economic Policy for inviting me to talk about the role of financial markets on the macro economy and middle class. My discussion on this topic is based on my research over the years with Amir Sufi of University of Chicago Booth School of Business.

Well-functioning financial markets are extremely important both for a healthy economy and a strong middle class. The U.S. in many ways is the envy of the world in terms of having the most sophisticated financial market. We need to protect and strengthen this advantage, and correct any flaws that remain. The 2007–09 financial crisis revealed a fundamental weakness in this regard that needs to be addressed.

The key weakness of our financial architecture today is the inability of standard mortgage contracts to adjust to a changing macro environment. I describe how this characteristic of mortgage debt devastated the U.S. economy in general, and the American middle class in particular in Section I of my testimony. I explain how mortgage debt weakened the middle class and the economy via three distinct channels. (A) The concentration of wealth losses on the indebted homeowners. (B) The amplification of wealth losses through foreclosure externalities. (C) The translation of wealth losses into weak aggregate demand and high unemployment through the aggregate demand externality.

Section II presents a specific proposal: Shared Responsibility Mortgages (SRMs). SRMs are aimed at removing the basic flaw in existing mortgage contracts. I discuss how SRMs work and how they provide significant macro and social benefits—particularly to the middle class. I also discuss some of the ways in which the Government can help facilitate their introduction.

Section I: House Price Collapse, Mortgage Debt, and the U.S. Economy

It is clear in hindsight that market participants had become over-exuberant with respect to housing during the 2000s. However, why was the correction in house prices—starting in 2007—so destructive for the overall economy? I discuss the three channels driven by the role played by mortgage debt.

A. Housing Crisis and the Destruction of Middle Class Wealth

For many Americans, home equity is their only source of wealth. If house prices decline, then their wealth position becomes seriously impaired. They may be counting on their home equity for retirement, or even to help pay for a child's college education. And a dramatic decline in house prices is just as unexpected as a tornado barreling down on a small town in Kansas.

But when it comes to the risk associated with a collapse in house prices, the financial system's reliance on mortgage debt means that homeowners have no insurance against the financial calamity they face. Understanding how debt concentrates house price risk on homeowners is the first step in understanding why debt leads to severe economic downturns.

Debt plays such a common role in the economy that we often forget that it is an extremely harsh form of financing—especially in terms of its distributional consequences in the event of a downturn. The fundamental feature of debt is that the borrower must bear the first losses associated with a decline in asset prices. Thus, if a homeowner buys a home worth $100,000 using an $80,000 mortgage, then the homeowner's equity in the home is $20,000. If house prices drop 20 percent, the homeowner loses $20,000—their full investment—while the mortgage lender escapes unscathed.

The middle class tend to be the typical homeowner with a mortgage. In the example above, the middle class homeowner loses 100 percent of their net wealth, while the lender—typically wealthier—does not lose anything. This is the fundamental feature of debt—it concentrates the losses on the junior claim.

Now let's take a step back and consider the entire economy of borrowers and savers. When house prices in the aggregate collapse by 20 percent, the losses associated with that collapse are concentrated on borrowers in the economy. Given that borrowers tend to be individuals that already had low net worth before the crash (which is why they needed to borrow in the first place to buy their home), the concentration of losses on borrowers devastates their financial condition. They already had very little in terms of net worth, and now they have even less.

In contrast, the savers, which are typically high net worth individuals with a large amount of financial assets and little mortgage debt, experience a much less severe decline in their net worth when house prices collapse. This is because they ultimately own—through their deposits, bonds, and equity holdings—the senior claim on houses in the economy. House prices may collapse so far that even the senior claim experiences losses, but the losses will be much less severe than the devastation to the borrowers' net worth.

As this example makes clear, the concentration of losses on debtors is inextricably linked to wealth inequality. When house prices collapse in an economy with high debt levels, the collapse amplifies wealth inequality because low net worth individuals experience the lion's share of the losses.

During the Great Recession, house values collapsed by $5.5 trillion: an enormous decline relative to the annual economic output of the U.S. economy of $14 trillion. Given such a massive hit to house prices, the net worth position of the U.S. household sector obviously suffered. But what is less obvious was the distribution of those losses: who actually lost wealth when housing collapsed?

Let's start with an examination of the net worth distribution in the United States as of 2007. A household's net worth is composed of two main types of assets: financial assets and housing assets. Financial assets include stocks, bonds, checking and saving deposits, and other business interests the household owns, while housing is typically the value of the home the household owns. Net worth is defined to be financial assets plus housing assets minus any debt the household has. Mortgages and home equity debt are by far the most important components of household debt, making up 80 percent of all household debt as of 2006.

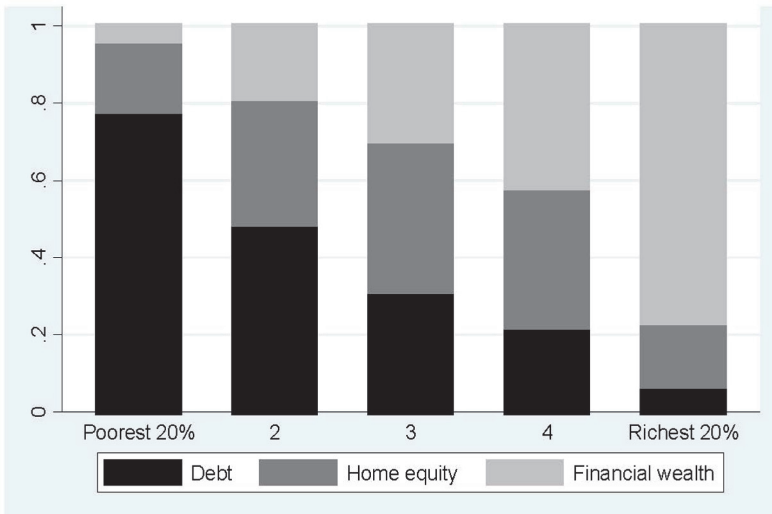
As of 2007, there were dramatic differences in leverage and the composition of net worth across U.S. households. Homeowners in the bottom 20 percent of the net worth distribution—the poorest homeowners—were highly levered. Their leverage ratio, or the ratio of total debt to total assets, was near 80 percent. Continuing the example at the beginning of the chapter, if the household had a home worth $100 thousand and a mortgage worth $80 thousand and no other assets, the households would have a leverage ratio of 80 percent.

Moreover, the poorest 20 percent of homeowners relied almost exclusively on home equity in their net worth. Their ratio of home equity to total assets was 18 percent, while the ratio of other net worth to total assets was only 4 percent. Or in other words, about $4 out of every $5 of net worth was in home equity. In a nutshell, poor homeowners had almost no financial assets coming into the recession. They had only home equity, and that home equity was highly levered.

The rich were different in two important ways. First, they were far less levered coming into the recession. The richest 20 percent of homeowners had a leverage ratio of only 7 percent, compared to the 80 percent leverage ratio of the poorest homeowners. Second, their net worth was overwhelmingly concentrated in non-housing assets. While the poor had $4 of home equity for every $1 of other assets, the rich were exactly the opposite with $4 of other assets for every $1 of home equity. Most of their wealth was in financial assets such as money market funds, stocks, and bonds.

Chart 1 shows these facts graphically. It splits homeowners in the United States as of 2007 into five quintiles based on net worth, with the poorest households on the left side of the chart, and the richest households on the right side. The chart shows the fraction of total assets each of the five quintiles has in debt, home equity, and financial wealth. There is a very striking pattern. Poor homeowners, those with low net worth, are much more levered and rely exclusively on home equity in their wealth. As we move to the right of the chart, leverage declines and financial wealth increases.

Chart 1. Leverage Ratio for Homeowners by net worth quintile

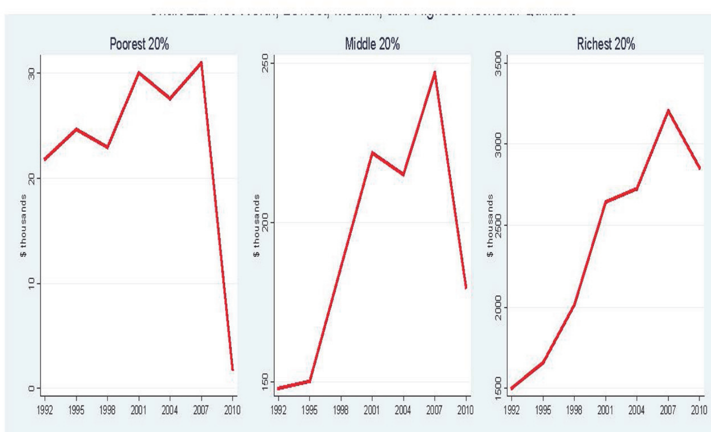


This pattern isn't surprising. Remember, a poor man's debt is a rich man's asset. When a poor homeowner gets a mortgage, we tend to think that a bank is lending to the homeowner. But the bank must get the money from somewhere! Ultimately, the rich own the bank. They own the bank through their financial asset holdings, which include the stocks, bonds, and deposits of the banking sector. As a result, as we move from poor homeowners to rich homeowners, debt declines and financial assets rise. This captures how the rich, through the financial system, are ultimately lending to the poor. As I mentioned above, the use of debt and wealth inequality are closely linked.

Now that we understand the net worth position of homeowners as of 2007, we can assess who was affected the most by the collapse in asset prices during the Great Recession. House prices for the Nation as a whole fell 30 percent from 2006 to 2009. Further, they stayed low, only barely recovering toward the end of 2012. While stock prices fell dramatically during 2008 and early 2009 they eventually rebounded strongly afterward, and bond prices actually rose dramatically throughout the recession. Thus household holding financial assets—stocks and bonds—were protected from the brunt of the crisis, while households exposed to housing and debt suffered large losses.

So which homeowners were hit hardest by the Great Recession? Chart 2 puts these facts together and shows one of the most important patterns of the Great Recession. It shows the evolution of household net worth for the bottom quintile, the middle quintile, and the highest quintile of the homeowner wealth distribution.

Chart 2. Net worth, Lowest, Median, and Highest Net worth quintiles



The net worth of poor homeowners was absolutely hammered during the Great Recession. From 2007 to 2010, net worth collapsed from $30K to almost $0K. The decline in net worth during the Great Recession completely erased all of the gains from 1992 to 2007. This is exactly what we would predict given the reliance on home equity and their large amount of debt. The financial system's reliance on debt concentrated losses directly on the poorest households.

In contrast, rich homeowners were hardly touched. Their average net worth declined from $3.2M to $2.9M. While the dollar amount of losses were considerable, the percentage decline was negligible. Further, the decline wasn't even large enough to offset any of the gains from 1992 to 2004. The rich made out well because they held financial assets that performed much better during the recession than housing. They also made out well because many of the financial assets were senior claims on houses. House prices hammered poor households because they were indebted; house prices affected the rich by far less because they ultimately held the senior claim on homes.

Wealth inequality was already severe in the United States before the recession. As of 2007, the top 10 percent of the net worth distribution had 71 percent of the wealth in the economy. This was up from 66 percent in 1992. In 2010, the share of the top 10 percent jumped to 74 percent, which is consistent with the patterns shown above. The rich maintained their wealth while the poor got poorer.

Many have discussed the trends in income and wealth inequality. But an often over-looked aspect of this issue is the role of debt. As I have shown here, a financial system that relies excessively on debt will amplify wealth inequality when asset prices collapse. Debt and wealth inequality are closely linked.

B. The Foreclosure Externality

For many households during the Great Recession, the value of a home dropped by more than the value of the homeowner's equity. The homeowner then became "underwater" or "upside-down" on his mortgage. As of 2011, 11 million properties with a mortgage—or 1 in 4 homeowners with a mortgage—had negative equity.

Not only was a homeowners equity stake completely wiped out, but if he chose to sell the home, he would have had to pay the difference between the mortgage and the sale price to the bank. Faced with this dire circumstance, many homeowners decided to walk away from the home, allowing the bank to foreclose.

Economists have long appreciated that debt affects everyone when asset prices collapse, not just the indebted. The fire sale of assets at steeply discounted prices is the most common example. A fire sale refers to a situation in which a debtor or creditor is willing to sell an asset for a price far below fundamental market value. In the context of housing, a fire sale typically occurs after foreclosure. When a bank takes the property from a delinquent homeowner, they sell the property at a steeply discounted price.

When the sale occurs, the fire sale price, which is typically far below market value, is used by home buyers and appraisers to estimate the price of all other homes in the area. As a result, all of the homes in the area suffer a decline in price. Even homeowners with no debt at all see the value of their homes decline. Consequently, financially healthy homeowners may be unable to refinance their mortgages or sell their home at a fair price. Over the last few years, many homeowners in the United States have been shocked by a very low appraisal of their home during a refinancing. This low appraisal was typically the direct result of an appraiser using a fire sale foreclosure price to estimate the value of all homes in the neighborhood.

Foreclosure externalities are among the most insidious effects of debt financing. A negative externality occurs whenever there are negative effects of a private transaction between two parties that are not fully borne by the two parties. In a foreclosure, a bank selling the property does not internalize the negative effects of the fire sale on the net worth of all the other homeowners in the area. As a result, the bank is willing to sell at the lower price, even though society as a whole would not want the bank to do so.

Research demonstrates that foreclosures significantly exacerbated the housing downturn during the Great Recession. In 2009 and 2010, foreclosures reached historically unprecedented levels. The previous peak before the Great Recession was in 2001 when about 1.5 percent of all mortgages were in foreclosure. During the Great Recession, foreclosures tripled relative to their prior peak: Almost 5 percent of all mortgages outstanding were in foreclosure in 2009. Daniel Hartley at the Federal Reserve Bank of Cleveland has estimated that between 30 and 40 percent of all home sales in 2009 and 2010 were foreclosures or short sales.

In research with Amir Sufi and Francesco Trebbi, we estimated the negative effects of foreclosures on house prices and household spending. We used the fact that some States have much more lenient foreclosure policies than others. In some States, the lender must go through the courts to evict a delinquent borrower from the home. In other States, no such court action is required. Foreclosures are much faster in States that require no court action. As a result, there were far more foreclosures in some States than others during the Great Recession, and this difference can be used to estimate the effects of foreclosure on the local economy.

Using these differences across States, we found large negative effects of foreclosure during the Great Recession. Given the nationwide decline in house prices of 30 percent, our research suggests that house prices would have only fallen by 22.5 percent from 2007 to 2009 if States had implemented more lenient policies toward foreclosing. Further, by pulling down house prices, foreclosures dampened consumption and home building. We found that one-fifth of the decline in both spending on autos and residential construction was the direct result of foreclosures.

When the housing bubble burst, there was no doubt a need for reallocation of resources in the economy. Too many renters had become homeowners. Too many homeowners had moved into homes they could not afford. Too many homes had been built. But when the crash occurred, the debt-ridden economy was unable to reallocate resources in an efficient manner. Instead, debt led to fire sales of properties which only exacerbated the destruction of net worth. Debt was the crucial problem.

C. The Aggregate Demand Externality

The large loss in wealth of indebted households forces them to cut back on their overall spending for two reasons: they feel the need to save given loss to wealth, and they have poorer access to credit markets due to the loss of housing collateral. The contraction in spending is particularly severe because wealth losses tend to disproportionately fall on indebted households and households with low levels of net wealth.

In my work with Amir Sufi, we show that the propensity to cut back spending in the face of wealth losses is three times as large for poorer households and households with high levels of leverage. Thus in terms of spending, the rich and less levered have more capacity to absorb losses. However, as I have already explained, the unique characteristics of a mortgage debt contract impose losses on the indebted and the less wealthy. This is inefficient from an aggregate demand management perspective.

When debtors sharply pull back on household spending, the economy tries to boost demand from elsewhere. One possible channel is to convince creditors to consume more by lowering the interest rate. However, if this is not possible even at zero interest rates, then the economy is stuck in a "liquidity trap" with below-capacity aggregate demand.

The decline in aggregate demand due to wealth loss for the indebted soon becomes a problem for everyone in the economy—whether someone borrowed initially or not.

The reason is that one person's demand is another person's job. In a paper with Amir Sufi, we show that the decline in spending by households suffering the loss in wealth led to sharp decline in employment everywhere in the economy. In fact we can quantitatively show that majority of the job losses during the 2006–2009 period were driven by this particular aggregate demand externality.

An important lesson from this example is that we are in this mess together. Even households in the economy that stayed away from toxic debt during the boom suffer the consequences of the collapse in household spending during the bust. For example, many auto plants in the United States are located in areas of the country that completely avoided the housing boom and bust: Indiana, Ohio, and Kentucky. Yet auto workers in these States suffered during the Great Recession because highly levered household in other parts of the country stopped buying cars.

Section II: Shared Responsibility Mortgages (SRMs)—A Policy Proposal

I have highlighted three aspects of mortgage debt that devastated middle class wealth, lowed aggregate demand and massively increased job losses in the U.S. economy during the 2007–09 financial crisis. Can these outcomes be prevented while still maintaining a healthy mortgage market? Yes, I believe that is possible. I outline my proposal (again a result of joint work with Amir Sufi) below and discuss how SRMs would have protected both the American middle class and the overall economy.

A. Shared Responsibility Mortgages (SRMs)

Consider an $80,000, 30-year fixed rate mortgage loan at 5 percent interest rate, for a house bought for $100,000. The homeowner puts 20 percent downpayment for her house and starts paying an annual mortgage payment of $5,204 to the lender.

An SRM works in exactly the same way as the fixed rate mortgage described above with a couple of important differences. First, there is downside protection for the homeowner based on her local house price index. A number of market participants produce local house price indices (e.g., at the level of the zip code). The Government can monitor and certify the production of such a house price index on which the downside protection of an SRM can be contracted.

Say the local house price index were 100 when the mortgage was originated. Then if at the end of any year during the life of the mortgage, the local house price index drops below 100 by X percent, the mortgage payment due the following year will also decline by X percent. For example, if the local house price declined by 10 percent after the first year to 90, mortgage payment in the second year will decline by $520.4 while maintaining the original amortization schedule for principal. If house price index goes above 100 in subsequent years, mortgage payment will also go back up to its original $5,204.

Such a contract is very easy to implement. All we need is a local house price index which is already available. The provision of downside protection to the homeowner comes at the expense of the lender and will therefore increase the up-front cost of the mortgage in practice. How large is this cost, and can we somehow compensate the lender sufficiently for bearing this cost?

The cost of providing downside protection depends on expected annual house price growth and volatility. Historically, house prices in the U.S. have grown at an annual rate of 3.7 percent with a standard deviation of 8.3 percent. Using mortgage pricing formulas, one can show that the cost of providing downside protection will be around 1.4 percentage points. This is a substantial increase in cost of financing. However, we can completely eliminate this up-front cost by introducing a second innovation in our SRM contract.

The second important feature of an SRM contract is a 5 percent capital gain sharing provision. The capital gain provision implies that whenever the home owner sells the house—or refinances the mortgage—the lender collects 5 percent of net capital gain on the house. Since capital gain on owner-occupied housing is tax-exempt anyways, homeowners still gets to keep 95 percent of any gain in home value. Moreover, since the lender can securitize a large number of mortgages together, he can completely diversify the uncertainty of when a particular homeowners sells his or her property. On average the lender will receive a fairly stable flow of 5 percent capital gains from his pool of mortgages.

Is the 5 percent capital gain provision sufficient to eliminate the 1.4 percent up front cost added due to the downside protection offered by the lender? We can once again turn to mortgage pricing formulas for help. Given historical house price growth in the U.S., it turns out that a small 5 percent capital gain share is more than sufficient to compensate the lender. In fact, with a 5 percent capital gain rule, the lender comes out ahead by 81 basis points.

B. The Benefits of SRMs for Middle Class and the Macro Economy

Suppose instead of traditional mortgage contracts, all mortgages were SRMs in 2007. What would have been the impact on the middle class and the overall U.S. economy? The research cited in Section I of my testimony gives us the answers.

First, the wealth of the middle class would have been naturally protected. Suppose a homeowner has 20 percent equity in his home. A 20 percent fall in house prices would have translated into a 20 percent reduction in his net wealth with SRMs, instead of the 100 percent reduction in net wealth with traditional mortgage. We would thus not have had the devastating increase in wealth inequality that we saw in Section I.

Second, everyone would have benefited in the case of SRMs since we would have completely avoided the foreclosure mess. The costs associated with foreclosure externality discussed in Section I were all driven by forced sale of distressed homes. However, with SRMs, no one is underwater as mortgage payments naturally and automatically adjust to lower debt burden and keep homeowners in their home. Foreclosure prevention helps everyone by stabilizing house prices quickly and reducing overall wealth loss.

Third, everyone benefits due to the large reduction in aggregate demand externality discussed in Section I. The reduction in aggregate demand externality is driven by three channels: (i) Foreclosure avoidance raises house prices, thus boosting spending. (ii) Wealth losses are now more equitably shared between lenders and borrowers. Since borrowers have significantly higher marginal propensity to consume than lenders, a more equitable distribution of losses raises aggregate spending. (iii) The increase in spending due to these two reasons lead to smaller job losses, which further help support a higher level of aggregate demand.

The macro benefits of SRMs can also be understood by our own calculations that show that most of the job losses and reduction in aggregate GDP could have been avoided if SRMs were in place.

SRMs should be attractive for a number of additional reasons as well. Our proposed mechanism is entirely market-based. There is no subsidy from the tax payers involved—ever. In fact, in a way the SRMs help reduce budget deficits in the long run. A significant share of the recent increase in U.S. Government debt has been driven by countercyclical fiscal deficits. The need for such fiscal deficits is greatly reduced due to the positive macro benefits of SRMs. Of course as always we need a sound banking system with sufficient capital, and all efforts to boost bank capital need to be encouraged.

Another advantage of SRMs is that they give the lender a direct interest in worrying about potential bubbles. In particular, if many of the lenders fear that the market might be in a bubble, they will raise the interest rate for new mortgages since these mortgages are more likely to require downside protection. There is thus automatic and market-based "leaning against the wind". Not only do SRMs reduce the negative effects of a bursting bubble, but they also reduce the likelihood of those bubbles appearing in the first place.

What can the Government do to promote SRMs? There is a vigorous debate regarding the interest deductibility of mortgage interest. Given the reliance of the housing market on this particular deduction, it is safe to assume that this deduction will largely remain in place. However, given the macro benefits of SRMs, I believe there is a strong social case to be made that the tax deductibility of interest should only be given to SRMs. If the Government made such a switch, the market would naturally move towards SRMs. Both the middle class and the U.S. economy would be better protected as a result.

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PREPARED STATEMENT OF AMY TRAUB

SENIOR POLICY ANALYST, DEMOS

JUNE 6, 2013

Testimony Delivered by Amy Traub, Senior Policy Analyst, Dēmos

Testimony Prepared by Amy Traub and Heather C. McGhee, Vice-President, Policy & Outreach

U.S. Senate Committee on Banking, Housing and Urban Affairs

Subcommittee on Economic Policy

Hon. Jeff Merkley, Chair

Hon. Dean Heller, Ranking Member

"State of the American Dream – Economic Policy and the Future of the Middle Class"

June 6, 2013

I. INTRODUCTION

Widely shared middle-class prosperity is a signature of American society. It has made America the most hopeful and dynamic country on earth and it is a foundation of strong democracy.

Yet today, America's middle class is in trouble—and those troubles long preceded the financial crash of 2008 and the downturn that followed. As a result of major economic and policy changes over the past three decades, the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Many jobs do not pay enough to cover basic living expenses, much less allow workers to save money and build assets for the future. In fact, a quarter of full-time working-age adults are still not earning enough money to meet economic needs like housing, utilities, food, health care, and transportation for themselves or their families.[1]

A college education has become ever more critical to moving up the income ladder—even as it has also become less affordable and the earning power of a college degree has stagnated. Building significant wealth assets for retirement or to help the next generation remains an impossible dream for millions. Many households are instead mired in debt. In short, too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there.

The hard economic times of the past few years have compounded the long accumulating challenges facing the middle class. Jobs are harder to come by amid extended high unemployment. Many jobs lost during the recession may never come back as a result of corporate policies that have eliminated jobs, moved them overseas, or replaced people with technology. The nation's new jobs disproportionately offer lower wages and fewer benefits than those they replaced.

The dream of homeownership has turned into a nightmare for millions of Americans who have lost their homes to foreclosure or now find themselves owing more on their mortgages than their homes are worth. Retirement savings accounts were hit hard by the stock market plunge of 2008-2009. Government

investments in education and job training have declined amid draconian budget cuts and hundreds of thousands of once secure jobs in the public sector have been eliminated.

America's economy has been an awesome engine of wealth creation in the past thirty years, but the new prosperity has disproportionately gone to the wealthiest. Between 1979 and 2007, according to the Congressional Budget Office, American households in the highest-paid 1 percent of the income distribution saw after-tax income gains of 275 percent[2]—while the 60 percent of the households in the middle saw their incomes grow by just under 40 percent over this same period.[3] And, according to much research, social mobility – the very essence of the American idea – has stagnated or declined in the United States, with many young people struggling to replicate their parents' standard of living.[4] For example, young men are earning 10 cents per dollar less than their fathers did 30 years ago, according to research from Dēmos.[5] A persistent and growing racial wealth gap, with historic inequities and injustices exacerbated by the recent iniquity of predatory lending, restricts opportunity for people of color to join or remain part of the nation's middle class. Princeton economist Alan Krueger observes that the economic data "challenge the notion that the United States is an exceptionally mobile society. If the United States stands out in comparison with other countries, it is in having a more static distribution of income across generations with fewer opportunities for advancement."[6]

A host of public policy choices created this state of affairs – including tax cuts that disproportionately benefitted the wealthy, financial deregulation, state divestment in public higher education, and decisions to let the minimum wage stagnate, to name only a few – and things are likely to get worse without major policy corrections. The long-term trends that have moved America toward a postindustrial service economy are here to stay and, in fact, have accelerated during the economic downturn. Over the next two decades, the Department of Labor projects that the largest job growth will be in low-wage jobs offering little opportunity for advancement and that do not offer health insurance or pay enough to allow workers to put money toward home equity and retirement savings. Meanwhile, most of the good jobs that are

created will require a post-secondary education that is likely to remain out of reach for millions as college tuition costs continue to rise.

Even as structural changes have imperiled the middle class, national action has been lacking. Over recent decades, many political leaders have failed to reckon with a basic fact of the new economic era – for millions of Americans, no amount of individual effort or self-improvement or thrift can guarantee a secure middle-class life. The American social contract – a promise of opportunity and security for those who act responsibly – is fundamentally broken.

Dramatic new public policy initiatives are needed to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. Such initiatives must move far beyond incremental measures and be of sufficient scale to permanently address the economic insecurities of what is now a vast number of U.S. households.

II. THE VIEW FROM THE HOUSEHOLD LEVEL

A. Stagnating Incomes, Rising Costs

It used to be the case that a rising economic tide lifted all boats. In the years after World War II, as economic growth and productivity increased, the workers contributing to that prosperity saw commensurate gains in wages, across the income spectrum. However, that connection has broken down over the last thirty years: while productivity increased 80.4 percent in the three decades between 1979 and 2011, the inflation-adjusted wages of the median worker grew just 6 percent, and that growth occurred exclusively as a result of the strong economy of the late 1990s, according to analysis by the Economic Policy Institute.[7] Since 2000, the picture of earnings and income has become still more stark: despite a productivity increase of 22.8 percent between 2000 and 2011, median family income in the United States has ***declined*** 6 percent, from $66,259 to $62,301, over the same period.[8]

Part of the story is the increasing economic returns to education, which left workers without a college degree lagging further behind in income and employment. For example, as chronicled in Dēmos' State of Young America report, in 1980, a young man with a bachelor's degree earned roughly $9,100 more than a young man with a high school degree. Today, he earns $20,000 more, and the trends are similar among women.[9] However, a college degree has not entirely protected workers from declining wages in the years since 2000. Between 2000 and 2012, the wages of young college graduates fell 8.5 percent, translating into a decline of more than $3,000 for full-time, full-year workers.[10] This suggests that boosting college attainment, while critical, will not be sufficient by itself to restore middle-class wages or re-establish the link between economic growth and productivity and wage growth.

A bigger part of the story has to do with the rising share of the nation's gross domestic product flowing to corporate profits rather than wages and the larger share of overall income going to the highest 1 percent of income earners. Until 1975, wages generally accounted for the majority of the nation's GDP, but by 2012 wages had declined to a record low of 43.5 percent.[11] Research from Northeastern University finds that in the first seven quarters after the end of the Great Recession, American corporations received an astonishing 92 percent of the growth in real national income, while aggregate workers' wages and salaries actually declined by $22 billion and contributed nothing to national income growth.[12]

Personal income has become far more concentrated at the top, a trend that has also accelerated rapidly since the end of the Great Recession. Economist Emmanuel Saez finds that between 2009 and 2011, the incomes of the highest-paid 1 percent of Americans grew by 11.2 percent while the incomes of the rest of Americans declined by 0.4 percent. In effect, the top 1 percent captured 121 percent of the income gains in the first two years of the recovery.[13]

Finally, while the real wage data above is adjusted for inflation, this story does not fully account for the cost of middle-class fundamentals, such as health care, child care and higher education, which have seen their costs grow far more quickly than inflation as a whole. For example, the average annual employee contribution to health premiums has tripled since 1999, growing from $318 to $951 for singles and from $1,543 to $4,316 for family coverage.[14] The national average cost for center-based child care in 2011 was $8,900 for full-time care for an infant and $7,150 for full-time care for a preschooler.[15] Center-based child care fees for two children (an infant and a 4-year-old) exceeded annual median rent payments in all 50 states and the District of Columbia.[16] This is all the more troubling since according to the Center for Housing Policy, nearly one in four working households (renters and owners combined) also experienced a severe housing cost burden in 2011, spending more than 50 percent of household income on housing costs, including utilities.[17] Meanwhile, at public four-year universities, average tuition has risen 126% (in real terms) since 1990. The American middle class, and workers aspiring to a middle-class standard of living, are squeezed between stagnant and declining wages and higher costs for the fundamentals of a middle-class life. Aside from the major advances in health care coverage and affordability in the Affordable Care Act of 2009, policymakers have done little to address this new reality.

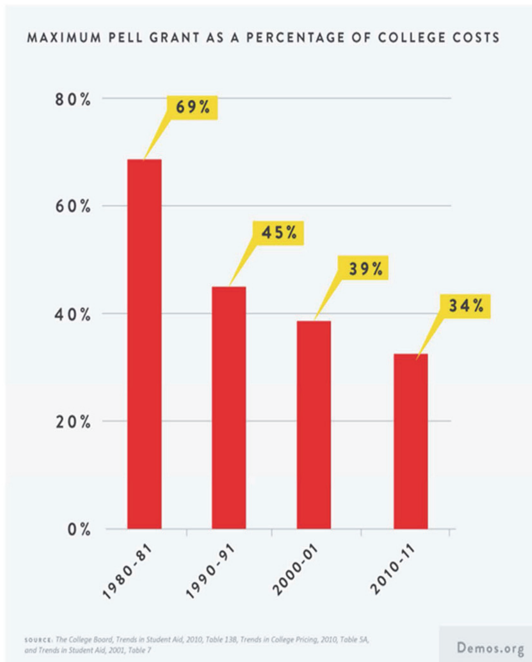
B. The New Price of Entry to the Middle Class, Now Priced Out: Higher Education

During the post-war industrial era, a post-secondary education was not required for a single breadwinner to support a family. For example, in 1970 male high school graduates earned a median income equivalent to $45,432 in today's dollars—32.5 percent more than they earn today.[18] However, just as automation,

trade liberalization and globalized manufacturing began to put downward pressure on the wages and job opportunities of non-college educated Americans, state and federal policymakers allowed college to become less affordable to non-affluent families. Tuition at public 4-year schools has more than tripled in the past three decades, rising faster than either inflation or growth in family income.[19] The United States went from first in the world in degree-holders to eleventh in the course of one generation. [20] The enrollment gap between low-income families and high-income families is as high as it was three decades ago. Many hardworking students are priced out of pursuing and completing higher education—a fundamental component to upward mobility and opportunity in American society. And those who do enroll are leaving college with unprecedented levels of debt, often without a degree in hand.

A major factor in the rise of public college costs is declining state support for higher education. Dēmos' research report *The Great Cost Shift* finds that, despite appropriating $75.6 billion for higher education in 2010 (from $65.1 billion in 1990), states actually devoted less of their wealth to higher education than they did just 20 years ago. After controlling for inflation, states collectively invested $6.12 per $1,000 in personal income in 2010, down from $8.75 in 1990, despite the fact that personal income increased by 66.2 percent over that period. As a result, between the 1990 and 2009 academic years, the real funding per public full-time equivalent (FTE) student dropped by 26.1 percent, falling from $8,608 to $6,360. Funding levels failing to keep pace with population growth, as the largest generation since the Baby Boomers has come of college age against the backdrop of a nationwide trend away from taxes and public investment. If states had provided the same level of funding as in 1990, total appropriations in 2009 would have equaled approximately $102 billion, an amount 35.3 percent greater than the actual one.[21]

Although increasingly large numbers of high school graduates enroll in some type of college, college completion has stagnated: today more than half of students who begin college never complete their degrees. **Financial barriers are the primary reason why students do not finish college.**[22] The high cost of college is particularly prohibitive for students from lower-income families, and shifts away from need-based aid are only exacerbating the challenge. In 2010, just 36 percent of all federal student aid was



grant-based, down from 55 percent in 1980. Similarly, in 1980, the maximum Pell grant covered 69 percent of the costs of a 4-year public college, compared to just 34 percent in 2010.[23]

Rising tuition and limited financial aid has more students than ever financing their college education with debt and at ever-increasing amounts. In addition, students are struggling to meet rising college costs by enrolling part-time and working long hours. Two-thirds of community college students and 46 percent of four-year college students work more than 20 hours a week while attending school, greatly increasing their risk of dropping out.[24] Lack of preparation at the high school level is another factor contributing to high drop-out rates. Our K-12 system often fails to graduate students ready for college, forcing many into costly remedial classes at the outset of their college education.

C. Weakened Employee Protections Make It Harder to Work Your Way Into the Middle Class

Americans believe that hard work should be rewarded—people who go to work every day should not then be forced to raise their families in poverty. Yet today nearly a quarter of working adults in the U.S. are laboring at jobs that do not pay enough to support a family at a minimally acceptable level. [25] Offering workforce development and training in order to ease mobility out of low-wage, no-benefit jobs is part of the solution, but fails to fully address the problem. Regardless of how many training opportunities are available to individuals, millions of jobs as home health aides, food service workers, retail salespeople and other currently low-wage occupations will still exist and, in fact, are projected to be among the nation's fastest growing positions in the future.[26]

It is important to acknowledge that the manufacturing jobs of the post-war era that helped build the nation's middle class required no more education than today's low-paid service jobs, and in fact, often less. However, those workers, mostly white and male, were able to bargain with employers to turn low-skilled factory jobs into family-supporting jobs with security and benefits, and the country prospered as a result. It remains to be seen whether today's low-paid workforce, which is disproportionately female, immigrant and people of color – those left out of the original post-war social contract – can likewise succeed in transforming their jobs into decent jobs. If they can, the country as a whole stands to benefit. According to calculations in Dēmos' 2012 report, *Retail's Hidden Potential*, lifting the wage floor at the largest U.S. retailers (those with over 1,000 employees) to a minimum of $12 per hour would lift 1.5 million Americans out of poverty or near-poverty, boost GDP and create a consumer stimulus generating 100,000 – 130,000 jobs over a year and, if costs were passed on, only affect prices by an average of 7 to 15 cents per shopping trip.[27] In addition, Dēmos has found that nearly 2 million of the country's lowest-paid jobs are underwritten by taxpayers through federal contracts, building leases, construction grants, health care spending and small business loans.[28]

The nation must act to ensure that these jobs can, at minimum, lift families above the poverty line and provide basic workplace protections, in order to strengthen the floor for employment in the United States. By lifting the bottom of the nation's labor market, we give working people a firm base from which they can work their way into the middle class. We also put a stronger backstop on the declining job quality of many formerly middle-class occupations.

The current minimum wage of $7.25 an hour is a rate at which it is impossible for working Americans to independently pay their rent, feed their families or get needed medical care—much less save for the types of investments that make it possible to lift oneself into the middle class, like an education, a first home, or the chance to start a business. Indeed, the value of the minimum wage today is nearly 30 percent below its peak in 1968.[29] The majority of minimum wage earners are adults living in low-income households and making significant contributions to their family's total income. Assuming a full-time work schedule, a minimum wage job at the current rate of $7.25 an hour brings in an annual income of $15,080—not enough to lift a family of three with a single working parent over the federal poverty threshold. The federal minimum wage for workers who are eligible to earn tips – such as food service workers, hotel bellhops, and nail service employees – has been stuck at $2.13 an hour for more than 20 years and is nearly 50 percent lower in real value.

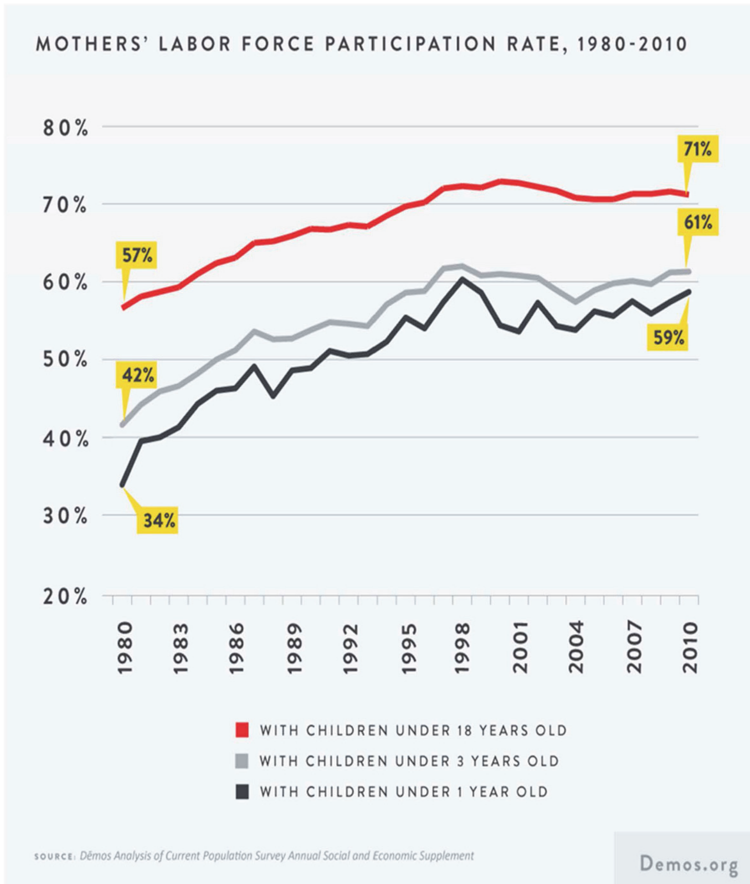
As inadequate as the minimum wage is, millions of American workers bring home even less. Wage theft – the practice of illegally underpaying workers – has become commonplace in the low-wage labor market. A study of employment conditions in America's largest cities found that one in four low-wage workers were paid less than the minimum wage in a given week.[30] Altogether, wage violations (including paying less than minimum wage, making employees work off the clock, pilfering tips, misclassifying employees as independent contractors, and a host of other violations) robbed low-income employees of $2,634 annually on average, out of total average earnings of just $17,616. In addition to harming the families of low-income workers, wage theft drains tax revenue, deprives neighborhood businesses of the income that low-income families would be spending, and puts law-abiding employers at a competitive disadvantage with those who break the law.

In addition, several categories of workers are currently left out of even the nation's most basic labor protections. Domestic workers – a category that includes nannies, housekeepers, and elderly caregivers – and farm workers are among the employees who have been deliberately excluded from the protections of federal and state labor laws, originally due to discrimination against a labor force made up predominantly of women and people of color. Both industries now have a predominantly immigrant workforce and are generally low paid: a survey of domestic workers in New York found 26 percent earn wages that put them below the poverty line.[31] Farm workers experience poverty rates more than double that of other wage and salary workers.[32]

D. Family Policy Lags Behind Changing Families

In today's economy, families increasingly depend on the incomes of all adults in the household, yet many working people also have responsibilities as parents and caregivers. Public policy has not kept up with the changing workforce: without access to paid leave, employees who need flexibility in their work lives to recover from illness or care for family members often face economic hardship.

While still the typical primary caregiver, the number of women in the American workforce has expanded dramatically in the past decades: today nearly two-thirds of American families with children – including both married couples and single parents—have all adults in the workforce.[33] Indeed, without the mass entry of mothers into the workforce, the income picture for the American middle class would be far more dire than it is today. At the same time, 27 percent of American adults reports having caregiving responsibilities for another adult, such as a disabled or elderly relative, and most of these caregivers are employed.[34] The proportion of the workforce with caring for elderly loved ones will continue to grow as the U.S. population ages.



Uncompensated caregiving responsibilities have very real economic consequences for working Americans. For example, an adult caring for his or her aging parent stands to lose as much as $303,880 cumulatively in lost wages, Social Security, and pension benefits due to leaving the labor force early and/or working reduced hours because of caregiving responsibilities, according to one recent estimate.[35] Yet it is the least-paid workers who are least likely to have access to any form of paid leave.[36] Low-wage workers often hold jobs with rigid or unpredictable schedules that further exacerbate conflicts between work and family responsibilities.[37] Faced with the need to cope with a family illness or the birth of child,

many workers see no option other than to quit or take time off that they know will result in being fired from their job.[38]

Even short-term illnesses can become major economic setbacks for workers without paid sick days. Two out of three low-wage workers in the U.S. – the employees who can least afford to miss a paycheck – do not have a single paid sick day to recover from illness or take care of sick child or relative.[39] These workers must choose between losing a day's pay or coming to work sick, endangering their own health and the public. Many low-wage workers even risk losing their jobs and health coverage if they call in sick. According to one survey, one in six Americans says that they or a family member have been fired, suspended, punished, or threatened by an employer for missing work due to illness.[40]

The Family and Medical Leave Act, passed in 1993, was intended to provide some security to families facing a sudden illness, providing family care, or welcoming a new child. The law guarantees 12 weeks of unpaid leave to Americans working at businesses with 50 or more employees. Employers cannot replace workers on FMLA leave or retaliate against them in any way. Since its implementation, workers have used FMLA leave more than 100 million times.[41] But four in ten American workers are not eligible because they work for smaller companies or have not been on the job long enough, and millions of Americans cannot afford to take leave without pay.[42] Because only a small proportion of employees receive paid leave benefits directly from their employers, working Americans are still forced to risk their incomes and jobs to maintain their families.[43] Employees of smaller companies lack any federal protection whatsoever.

The U.S. policy of offering only a portion of its workers only unpaid leave to deal with major life events stands in sharp contrast to the rest of the world. For example, 169 countries guarantee some form of paid leave to new parents—the U.S. joins Liberia, Papua New Guinea, and Swaziland on the short list of nations that leave workers alone to cope with this life-changing event and fail to mandate that employers provide paid time off when a child is born.[44]

E. Households Borrowing to Make Ends Meet

Sacrificing today for a brighter future tomorrow has long been a key ingredient of middle-class success. Home equity and savings nest eggs provide a buffer against hard times, and increase household economic stability, helping to fuel middle-class optimism and self-improvement. Household assets have a particularly powerful effect on how well children will do in their own independent lives.[45]

Yet in recent decades, financial deregulation and the aggressive marketing of toxic loans preyed on Americans' aspirations to build assets, fueling an unsustainable housing bubble that began to deflate in 2006. The bubble and the economic crash that followed decimated the wealth of American families, causing more than 2.7 million homeowners to lose their single largest asset to foreclosure and tens of millions of others to see their homes' value drop dramatically.[46] The crash hit those who had carefully saved and invested in their homes as well as speculators who gambled on a rising real estate market. Overall, the nation lost more than $6.5 trillion in home equity since the housing market peaked in 2006.[47] At the same time, the value of retirement savings collapsed as the stock market plummeted, destabilizing hopes for a secure retirement. Not having enough money for retirement became Americans' biggest financial worry.[48] Even as middle-class Americans saw their assets diminished, the dramatic and long-lasting rise in unemployment and underemployment contributed to Americans' difficulty paying back their debts.

The prevalence of asset poverty in America is dramatic. In September 2011, one in three American adults said that if they lost their job they would only be able to pay their mortgage or rent payment for one month or less.[49] A quarter of Americans report having no emergency savings at all, and would have to borrow or turn to family and friends if faced with an emergency car repair, medical bill, or job loss.[50] Only 24 percent of Americans have six months or more emergency savings—the amount recommended by most financial planners. The status quo is equally grim when it comes to homeownership and retirement savings, the assets key to middle-class security. Nearly one in four homeowners owes more on

their mortgage than their homes are currently worth.[51] Only half of households have any retirement savings whatsoever. And even those who do have very little saved.[52]

Instead of saving for the future, millions of working- and middle-class Americans are struggling just to service their debts. Dēmos has been chronicling the rapid rise in debt for nearly a decade: as wages stagnated and lagged behind the cost of living, Americans increasingly turned to borrowing – from credit card debt to loans against the value of their homes – to make ends meet and to try to get ahead.[53] The deregulation of consumer lending that began in the 1980s meant that many of these loans included deceptive and predatory terms that were highly profitable for lenders but led to record bankruptcies and debt-to-income ratios. Americans were aggressively marketed high-interest credit cards with hidden fees, abusive payday loans, misleadingly-marketed adjustable rate mortgages, and high-interest subprime loans (even for homebuyers who could have qualified for a better rate). While some of the worst practices unleashed by deregulation have been curbed by regulatory enforcement, the Credit CARD Act of 2009, and the Dodd-Frank Act of 2010, Americans remain vulnerable to unlimited loan interest rates and widespread servicer and debt collector abuse.[54]

Even today, as credit card debt has declined post-crash, 40 percent of among low- and middle-income households carrying credit card debt still rely on their cards to pay basic living expenses because they do not have enough money in their checking or savings accounts, according to Dēmos' own national household survey.[55] Credit cards are also widely used to pay medical bills and cope with spells of unemployment, in effect a high-interest way to make up for gaps in the public safety net.

Fortunately, smart regulation has recently made credit cards a better, fairer financial product for American consumers. The Credit CARD Act of 2009 has benefited millions of households in ways that directly affect their monthly budgets. Dēmos' 2012 "National Survey on Credit Card Debt of Low- and Middle-Income Households" found that the Credit CARD Act has empowered Americans to take control of their finances by increasing the transparency of credit card statements and dramatically reducing excessive fees

and penalties.[56] For example, the Act set new standards for clarity and disclosure in monthly billing statements. Credit card statements must now include information on how long it will take to pay off the current balance if consumers pay only the minimum payment amount each month. Ninety percent of households in our survey report they have noticed the change and one-third say they are responding to the new information included on credit card statements by paying their balances down faster. The CARD Act also offers consumers a reprieve from the assorted charges and fees that accompanied many accounts. In 2012, just 28 percent of households reported paying late fees—a significant decline from the one half of indebted households that accrued these fees in 2008. Of those who experienced late fees, only 29 percent saw interest rates go up on that card as a result, down from 53 percent in 2008, and only 14 percent experienced interest rate increases on their other credit cards. Finally, the Credit CARD Act virtually eliminated over-the-limit fees, previously one of the credit card industry's most abusive and profitable practices. Instead of denying transactions that exceeded a consumer's credit limit, credit card companies used to process them and then charge consumers a fee—whether the consumers wanted to go above their credit limit or not. The Credit CARD Act requires consumer authorization for exceeding limits, virtually eliminating these fees.

F. Retirement System Working For Employers, Bankers – Not Retirees

As a result of the drastic shift in our retirement system from traditional defined benefit pensions to defined contribution plans, Americans' retirement security is now more at risk than any time since Social Security was created. **Only half of workers currently have any kind of retirement savings accumulated outside of Social Security.**[57] The vast majority of those who do are offered only the 401(k)-type plans that are an inadequate solution for retirement for multiple reasons. First, they are inordinately expensive. The fees charged by firms that manage 401(k) accounts can cost workers a quarter or more of their retirement savings. According to a widely-cited 2012 study by Dēmos, *The Retirement Savings Drain*, over a lifetime, these fees can add up to more than $155,000 in losses for the average household.[58] Fees are levied on employers' matching contributions as well. In addition, 401(k)s are a poor

substitute for traditional pensions because they place the burden of investment risk exclusively on individual workers. After working throughout their lives, older Americans relying on individual retirement plans could lose their savings in a market crash, invest so conservatively that they ensure themselves weak returns, or outlive the funds they have been able to save. Pension-style plans, meanwhile, ensure security by spreading these risks among many plan participants over a long time horizon—no individual puts their entire retirement in danger. Yet in 2012, just 17% of private sector workers participated in a traditional pension as employers have opted for the low-cost 401(k) option instead.[59]

G. The Debt-for-Diploma System Burdens the Future Middle Class

Student loan debt is another area of growing economic concern. Due to rising college costs and diminishing grant aid, students are increasingly reliant on interest-accruing loans to pay for college, a dramatic shift in norms over the course of a single generation. In 2011, 66 percent of college seniors (at public or non-profit schools) graduated with debt, with borrowers carrying an average burden of $26,600 (up from only 33% of students in 1992).[60] Graduates of for-profit schools are even deeper in debt: 96 percent graduated with debt and their average was $33,050 as of 2008.[61] All told, borrowers now owe more than $1 trillion in student loan debt.[62] And there are increasing signs that student loan borrowers are becoming unable to repay this debt: $113 billion in student loans are more than 90 days delinquent on payments, and in serious risk of default; this represents an astonishing 31 percent of all student loan balances currently in repayment status.[63] Already student debt is causing young Americans to delay building the financial assets that are necessary to middle-class security, including purchasing homes and saving for retirement.[64] And the rising rate of defaults on student debt is impairing the credit of many Americans as well, making it more difficult to borrow or find employment among the nearly half of employers who now screen credit histories during hiring.[65]

The consequences of student loan debt can have a profound impact on the economy as a whole. According to a forthcoming Dēmos study, $53,000 in education debt (the average amount held by a dual-headed college educated household) leads to a net worth nearly $218,000 lower than if the household had not been forced to borrow to pay for their college education. Over time, the indebted household will end up with a net worth 17% lower than a similar non-indebted household. Over the economy as a whole, the $1 trillion in total outstanding student loan debt will lead to $4 trillion in lifetime lost assets for indebted households, not even accounting for the heavy impact of defaults.[66]

III. THE MACRO-ECONOMIC VIEW: FOUR MEGA-TRENDS INADEQUATELY ADDRESSED

A. Increasing U.S. Diversity Without a Commitment to Equity

A major societal trend with implications for economic policy has been the rapid demographic change over the past four decades. After the Immigration Act of 1965 removed race-restrictive entry quotas, the share of immigrants from non-European countries climbed.[67] The white population was 83 percent in 1970 and 76 percent in 1990; it now stands at 64 percent.[68] By 2042, whites will no longer be a majority in the US.[69] Already, 43 percent of Americans under the age of twenty-four are not white.[70]

Ironically, the country has only grown more diverse since the end of the Civil Rights Movement. American society has been experiencing rapid demographic change with only intermittent leadership attention to the challenges of coalescing a sense of common national purpose and identity out of a people with roots from every nation on the planet. While our discourse has recently embraced the idea that society can be color-blind, the facts belie the notion. In a 2011 *Associated Press* survey, 51 percent of all Americans expressed *explicit* anti-black attitudes, and 52 percent of non-Hispanic whites expressed anti-Hispanic attitudes.[71] The incidence of *unconscious* prejudice, which can affect decision-making in ways that are hard to detect by the actors themselves, much less those who would enforce anti-discrimination laws in the courts, are even higher. For example, Harvard University's Implicit

Association Test found that 88 percent of white people had a pro-white or anti-black implicit bias, and more than two-thirds of non-Arab, non-Muslim respondents displayed implicit biases against Arab Muslims.[72]

These implicit and explicit prejudices have real economic consequences for our diverse population. Approximately 3.7 million fair housing violations occur annually against African Americans, Latinos, Native Americans, and Asian Pacific Islanders as they seek to rent and purchase housing. Yet, HUD processed only 2,123 complaints in 2008.[73] In financial services, after decades of credit unavailability due to private and government redlining, the 1990s and 2000s saw communities of color experience a wealth-stripping phenomenon known as reverse redlining. Lenders and brokers targeted segregated neighborhoods with under-regulated financial products, particularly mortgages with features such as exploding adjustable rates, deceptive teaser rates, and balloon payments. Households of color were more than three times as likely as white households to end up with riskier loans.[74] Federal policymakers and regulators declined to protect these communities for years as foreclosures rose, even acting to pre-empt state anti-predatory lending efforts in the 2000s.[75] The resulting loss of wealth – 66 percent average loss for Latino households, 53 percent for African Americans compare to just 16 percent for white households[76] – stands as a grave and lasting blight on the future of our diverse middle class. For every dollar in assets that the typical white family owns, the typical Latino family has just twelve cents, and the typical African American family has only ten cents.[77] African Americans are twice as likely as whites to have zero or negative net worth.[78]

Finally, numerous studies have shown that job discrimination plays a role in the higher incidence of unemployment among non-whites (while the unemployment rate for whites is 6.7 percent, it is 13 percent for blacks and 9 percent for Hispanics.)[79] As just one striking example of this literature, a 2005 Princeton University study revealed that employers were more likely to offer a callback to white job applicants with criminal records than to well-qualified African American job-seekers with no criminal history.[80]

B. "Free Trade" Globalization Trades Away Middle-Class Jobs

The United States has lost millions of middle-class jobs as a result of the particularly labor-competitive form of globalized trade that policymakers have aggressively adopted in recent decades. Our trade policies have been written and enforced in ways that advantage multi-national firms seeking lower-cost labor, directly resulting in fewer and lower-paying jobs for the American middle class. Increasingly, white-collar jobs are also moving overseas as China, India, and other nations field more educated workers who can do the jobs now done by U.S. scientists, accountants, lawyers, and doctors. As a historic champion of a more open global economy, the United States has often failed to take a hard look at how this system puts U.S. living standards at risk and develop policies to balance the prerogatives of multi-national corporations and the American middle class. Worse, the U.S. has often done little as other countries, like China and Japan, have played by a different set of trading rules that put the U.S. at a disadvantage. And we have repeatedly been silent in the face of abuses of worker rights, even when these abuses are perpetrated by close trading partners who are bound by Free Trade Agreements to uphold basic labor standards.

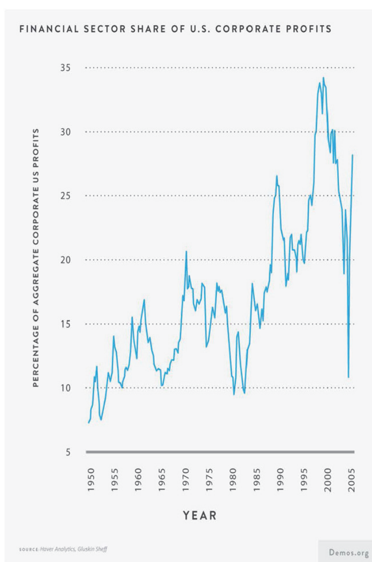
Over the past few decades, Increased trade with low-wage countries has been responsible for fully a third of the depression in wages of non-bachelors degree holders relative to degree-holders since 1979; tracking just since 1995 (one year after the North American Free Trade Agreement came into force), low-wage country trade accounts for over 90 percent of the wage depression.[81]

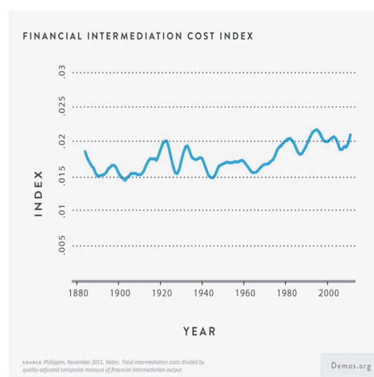
The downward pressure on wages affects not just workers who are directly competing with foreign production workers. When multi-national firms layoff American manufacturing workers in favor of less expensive employees in our trading partner countries, these laid-off workers compete for lower-paying jobs in non-offshorable sectors, such as landscaping or food service.[82] Thus the effect of our trade policy ripples throughout the working and middle class, beyond just those directly affected by plant closings.

The broader economic dynamic of high corporate profits amidst weak job growth and declining wages for most Americans is in large part a result of our global trade policies. The North American Free Trade Agreement turned a slight trade surplus with Mexico into the current almost $100 billion deficit, which has cost nearly 682,900 jobs.[83] The permanent normalization of trade relations with China has cost over 2 million American manufacturing jobs between 2001 and 2011.[84]

C. The Financialization of the Economy

The deregulatory movement that transformed consumer finance also revolutionized commercial and investment banking and trading in ways that have dramatically increased finance's share of the U.S. economy, from 3.8 percent to 8.2 percent of GDP.[85] This growth of the financial sector was not because of increased demand for financial services, which only grew by 4 percent in the last decade.[86] Financial sector profits have also increased as a share of total corporate profits, with the non-financial sector transferring increasing income to the financial sector. Research from New York University's Stern School of Business shows that the cost of financial intermediation – the critical function of transferring capital from investors to productive uses in the economy – has actually *increased* since deregulation. The reason appears to be an enormous increase in trading.





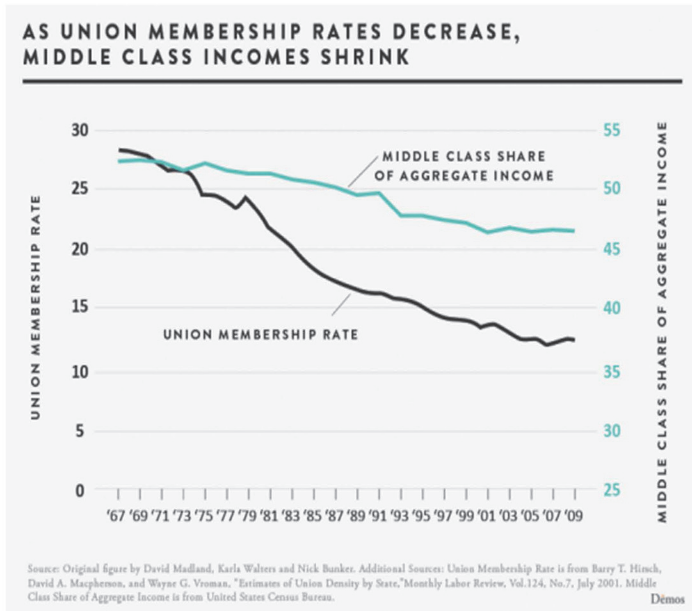
The relative growth of the financial sector is not necessarily a problem if the services provided by the sector provide commensurate value to the overall economy. With the cost of intermediation rising despite technological advances – and with economic performance worsening, particularly as measured by the

employment recovery time post-recessions – it becoming apparent that value is being simply reallocated to the beneficial owners of financial firms. This drains resources that could be put to uses that would increase the productivity of the overall economy and create jobs and wealth. Dēmos Senior Fellow Wallace Turbeville has estimated that the excessive wealth transfer to the financial sector is in the range of $635 billion per year.[87]

In fact, the growing financialization of the U.S. economy and its impact on publicly traded corporations undermines the middle class in a range of ways. A focus on "shareholder value" has trumped all other goals for the modern corporation since the 1980s – a shift that Wall Street helped usher in through a relentless search for profits that included leveraged buy-outs, mergers and acquisitions, and private equity deals, as well as a more aggressive quest for short-term trading gains. This narrow focus on the bottom line has undermined American workers and the middle class by justifying any cost-cutting measures that can boost quarterly earnings, including layoffs, foreign outsourcing, eliminating benefits, and defeating union drives. Nearly all the forces typically blamed for rising inequality—globalization, new technologies, declining unionization – have had a more devastating impact on U.S. living standards thanks to Wall Street's imperative to put stock price above all else.

D. Increased Employer Resistance to Employee Collective Bargaining

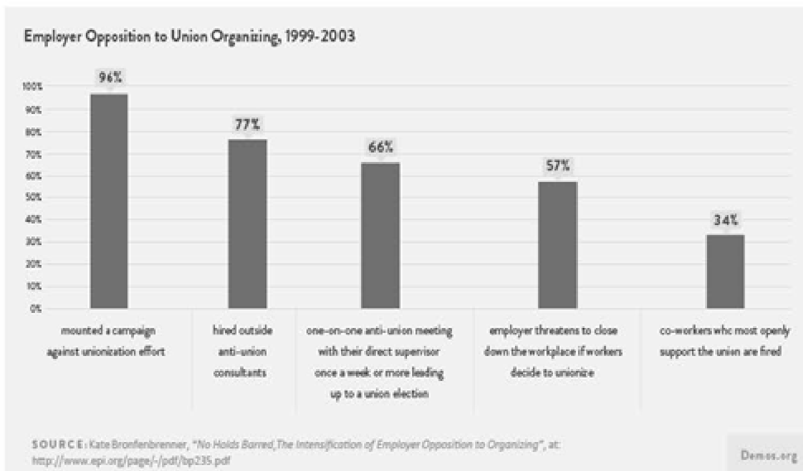
Organized labor has traditionally played a critical role in ensuring that middle-class working people receive a larger share of the economy's gains. Unions bargain collectively for better wages and benefits for their members. But unions also raise compensation for workers they do not represent: a recent study by Bruce Western and Jake Rosenfeld finds that unions substantially boost compensation for non-union employees in addition to their own members by influencing non-union employers to raise wages in order to avoid unionization; by promoting norms of fair pay, and by lobbying for public policies that raise wages.[88] In short, high unionization boosts the share of economic growth going to working people rather than to corporate profits or the very highest earners.



However, the percentage of Americans belonging to unions has declined steadily, falling by 44 percent between 1983 and 2012, so that today, just 6.6 percent of private sector workers belong to unions. Western and Rosenfeld estimate that **the decline of unionization has contributed as much as third to the growth of income inequality among working men since 1973.**[89]

One reasons for union decline is growth of employer opposition to unionization and the weakening of laws intended to protect employees' right to organize. Today, the system meant to defend the rights of employees to form unions no longer functions. Weak and slow-moving enforcement of labor rights allows employers to routinely violate the law, threatening and harassing employees who attempt to organize. An analysis of union elections from 1999 to 2003 revealed that when workers attempted to organize a union, 96 percent of employers mounted a campaign against their effort.[90] Three quarters of employers hired outside anti-union consultants. So while workers might wish to join unions, they often fail to persist in the effort after an intimidating one-on-one anti-union meeting with their direct supervisor once a week or

more leading up to a union election (a tactic employers used in 66 percent of organizing campaigns), after their boss threatens to close down the workplace if workers decide to unionize (57 percent of organizing campaigns), or after those co-workers who most openly support the union are fired (34 percent of organizing campaigns).



IV. THE DECLINE OF THE MIDDLE-CLASS DEMOCRACY

We have reviewed the data indicating that the middle class is struggling and that upward mobility is elusive for many Americans. Meanwhile, evidence abounds that the U.S. political system is increasingly dominated by wealthy interests, and strong, bi-partisan majorities of the public believe the deck is stacked against ordinary voters.[91] What is less understood, however, is the interplay between these two problems and how a growing chasm of income and wealth translates into diminished opportunities for Americans lower down the economic ladder.

As Dēmos outlines in our foundational report, *Stacked Deck: How the Dominance of Politics by the Affluent and Business Undermines Economic Mobility in America*, this tilting of political life toward those the well-connected and already-wealthy has served to undermine economic mobility as a whole. As

private interests have come to wield more influence over public policy, with ever larger sums of money shaping elections and the policymaking process, our political system has become less responsive to those looking for a shot to improve their lives and move upward. This is in part because wealthy interests are keenly focused on concerns not shared by the rest of the American public and often oppose policies that would foster upward mobility among low-income citizens, such as raising the minimum wage.

A. Different Incomes, Different Priorities

Significant differences between the wealthy and the general public exist in such areas as tax and budget, trade and globalization, regulation of business, labor, the social safety net, and the overall role of government. the general public is more open than the wealthy to a variety of policies designed to reduce inequality and strengthen economic opportunity, including: raising the minimum wage, increasing the Earned Income Tax Credit, providing generous unemployment benefits, and directly creating jobs. For example, as the table below reports, only 40% of the wealthy think the minimum wage should be high enough to prevent full-time workers from being in poverty, while 78% of the general public holds this view. Affluent voters are also less supportive of labor unions and less likely to support laws that make it easier for workers to join unions—even as research shows that unions are crucial to enabling people to work their way into the middle class. Governors elected with strong support from affluent voters and business groups have prioritized tax cuts over funding for primary and secondary public education.[92]

Jobs & Income Policy Preferences of Affluent vs. General Public

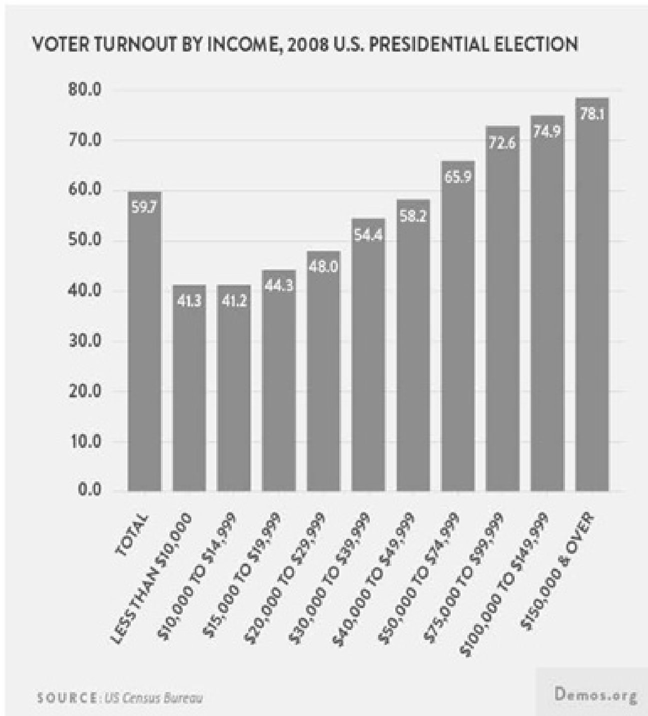
Policy	% Wealthy in Favor	% General Public in Favor
Government must see that no one is without food, clothing or shelter	43%	68%
Minimum wage high enough so that no family with a full-time worker falls below official poverty line	40%	78%
The government should provide a decent standard of living for the unemployed	23%	50%
The government in Washington ought to see to it that everyone who wants to work can find a job	19%	68%
The Earned Income Tax Credit (EITC) should be increased rather than decreased or kept the same	13%	49%
The federal government should provide jobs for everyone able and willing to work who cannot find a job in private employment	8%	53%

SOURCE: *Benjamin I. Page, Larry M. Bartels, and Jason Seawright, "Democracy and the Policy Preferences of Wealthy Americans," Perspectives on Politics, 11:1, pp. 51-73.*

Demos.org

B. Unequal Political Voice

These differences in policy preference by class create distortions in our policymaking precisely because the affluent are over-represented among both donors and voters (not to mention lobbyists, media influencers and other categories with outsized influence in our political system). Working and middle-class citizens are more susceptible to the disenfranchising effects of our needlessly bureaucratic system of voter registration, a system which leads to 51 million eligible Americans being unregistered to vote.



Non-wealthy Americans are even less likely to contribute to political campaigns. Just 0.07 percent of the U.S. population made campaign donations of $2,500 or more in 2012, yet this group had contributed a total of $1.4 billion to both presidential candidates.[93] In contrast, the total haul from a much larger pool of donors contributing between $200 and $2,500 was just $485.7 million.[94] The donor pool does not reflect the electorate's diversity, either: over 90 percent of donations in the 2012 election came from majority white neighborhoods while only four, three and less than one percent came from Latino, African-American and Asian neighborhoods respectively.[95] This unequal political voice distorts elected officials' representation of citizens' actual policy views, given how many non-affluent Americans favor policies to create new pathways to the middle class.

For example, despite the important role a strong minimum wage plays in economic mobility, Congress has allowed the wage to decline steadily in real terms over the past four decades. (Meanwhile, it has repeatedly lowered capital gains tax rates to benefit the wealthy, despite majority opposition to preferential treatment of wealth income over work income).[96] Even with the series of minimum wage increases, adjusting for inflation shows that the real value of the federal minimum wage fell roughly 30 percent since 1968. If the minimum wage increased at the same rate as inflation, it would be equal to $10.69 per hour, far above the current $7.25.[97]

This slide in the minimum wage should be no surprise when one takes a close look at the data on lobbying expenditures. The data suggests that low-wage workers, who constitute as much as a fifth of the U.S. labor force, have very few paid advocates in the corridors of Washington. Labor unions often speak up for these Americans, but otherwise, lobbying by groups that explicitly advocate for low-wage workers or non-elderly low-income people is so small that it doesn't even merit its own category in records compiled by the Center for Responsive Politics. This lobbying imbalance exacerbates the problem of elected officials being accountable to wealthy campaign contributors by ensuring that once in office, these officials are exposed to a constant flow of information supporting the donor class' views and positions.

The most important study in this area is by the political scientist Martin Gilens, *Affluence and Influence: Economic Inequality and Political Power in America*. By comparing the policy preferences of different income groups with actual policy outcomes, he was able to determine how much influence different groups have had over policy. Gilens writes of his findings: *"The American government does respond to the public's preferences, but that responsiveness is strongly tilted toward the most affluent citizens. Indeed, under most circumstances,* ***the preferences of the vast majority of Americans appear to have essentially no impact on which policies the government does or doesn't adopt.***" Gilens shows that, in many cases, public policy outcomes would have been quite different if Congress and the President had been equally responsive to all income groups.

V. Policy Recommendations

A. Strengthen Pathways to the Middle Class

Building a stronger middle class that fully reflects America's diversity will require policies that:

- *Invest in human capital and education.* Investing in education and human development, ensuring that future generations are well cared for and well educated, and that working people have the time they need to be caregivers to the people they love is a key starting point for moving millions of Americans into the middle class. For example, employees who need flexibility in their work lives to care for a child or other family member often face economic hardship. A system of family leave insurance – like the successful model in California – would help insure that the birth of a child no longer leads to poverty. Investing in affordable, high-quality child care and early education would reduce educational gaps and set the groundwork for success long after school. Finally, the nation's financial aid system should be revamped to ensure that every college-qualified student has access to higher education without taking on ruinous debt.

- *Increase employees' power in the workplace.* Since the 1970s, a growing share of share of national income has gone to corporate profits while the proportion going to labor compensation has decreased. This shift has greatly accelerated in the last decade. To reverse the trend, employees need more power in the workplace. The bottom of the labor market should be bolstered by raising the minimum wage, guaranteeing paid sick days to working people, and ensuring that worker protections are effective and apply to everyone. At the same time, weakened labor laws should be reconstituted so that Americans can exercise their right to organize unions and negotiate for pay and benefits that will allow them to enter the middle class. Finally, the U.S.

should create a short-term public jobs program and long-term public investment plan to promote full employment.

- *Use tax policy to strengthen and expand the middle class.* Too often, the nation's tax policy bolsters the already wealthy rather than supporting Americans trying to work their way into the middle class. A more progressive tax system could increase economic mobility and reduce inequality. The Earned Income Tax Credit and the Child Tax Credit, which benefit low-income workers and their families, should be expanded. To ensure that the home mortgage tax credit helps middle-class families rather than subsidizing the super-wealthy, its value should be capped. Meanwhile, taxes on capital gains and dividends – income which disproportionately flows to the wealthiest Americans – should be increased, and corporate tax loopholes should be eliminated. To reduce the transfer of tremendous wealth from one generation to the next, estate taxes should be increased.

- *Enable Americans to build assets.* Owning assets – from a retirement account, to a home, to an emergency savings fund – is crucial to middle-class security. Yet American families have lost trillions of dollars in home equity as a result of the housing crash, and one in three say that if they lost their jobs, they could not make housing payments for more than a month. To help distressed homeowners, a new public agency should be established to acquire and refinance under-water mortgages. To increase retirement security, Social Security should be safeguarded and supplemented with a system of voluntary annuitized pensions that guarantee a minimum rate of return. And to ensure that the predatory lending that drains pocketbooks is halted, federal usury limits should be established for all forms of lending and bankruptcy laws should be rewritten to provide greater relief to student borrowers and homeowners.

B. Limit the Economic Policy-Distorting Influence of Money in Politics

To achieve and preserve these reforms, we must also limit the influence of money in politics. One critical way to reduce the disproportionate influence of the wealthy on public policy is to create a system for financing election campaigns that lives up to the idea of one-person, one-vote by leveling the playing field between rich and poor and giving every American a strong voice. Such a system requires several key reforms:

- *Amend the U.S. Constitution to restore the ability of the people to enact common-sense, content-neutral restrictions on political contributions and spending to promote political equality.* Congress should propose an amendment or package of amendments to the U.S. Constitution to clarify that the First Amendment was never intended as a tool for use by corporations and the wealthy to dominate the political arena.

- *Enact strict limits on the amount that wealthy individuals and interests can contribute and spend on U.S. politics.* Millionaires, billionaires, and large corporations have no inherent right to drown out the voices of the rest of the population. After amending the Constitution or educating the next generation of Justices, Congress and states should sharply limit contributions and spending to level the playing field for all Americans.

- *Match small contributions with public resources to empower small donors and help grassroots candidates run viable campaigns.* Low-dollar contributions from constituents should be matched with public funds, and candidates who demonstrate their ability to mobilize support in their districts should receive a public grant to kick start their campaigns. These measures would amplify the voices of non-wealthy citizens, encourage average Americans to participate in

campaigns, change candidate incentives, and enable aspiring public servants without access to big-money networks to run viable campaigns for federal office.

- *Encourage small political contributions by providing vouchers or tax credits.* Encouraging millions of average-earning Americans to make small contributions can help counterbalance the influence of the wealthy few. Several states provide refunds or tax credits for small political contributions, and the federal tax code did the same between 1972 and 1986. Past experience suggests that a well designed program can motivate more small donors to participate. An ideal program would provide vouchers to citizens up front, eliminating disposable income as a factor in political giving.

- *Require greater transparency around political spending.* Congress should close existing loopholes in disclosure laws so that all money spent to influence U.S. elections (above a reasonable threshold) can be traced back to its original source. Allowing citizens to "follow the money" would help voters make informed choices and prevent wealthy interests from sponsoring nasty or misleading adds while insulated from public accountability.

- *Strengthen rules governing lobbying to reduce the influence of well-heeled special interests.* Congress should strengthen disclosure around lobbying and implement stronger revolving door limits that prevent former elected officials from approaching former colleagues for several years.

C. Address Class Gaps in Voting by Expanding the Freedom to Vote

A legitimate government "of the people, by the people, and for the people" must vigorously promote and protect the freedom to vote so that all eligible persons can participate in self-government. But today, too many bureaucratic barriers still block the ability of millions of eligible persons to register and vote, and too many politicians are actively seeking to shrink the electorate with unnecessary and discriminatory restrictions on political participation. Reversing this trend entails:

- *Removing Barriers to Registration and Voting:* Voter registration is a particularly important target for reform, given that almost one of four eligible Americans was not registered to vote in the period leading up to the 2012 elections. In particular, the following should be adopted:

  - *Same-Day Registration:* Implementing Same Day Voter Registration, which allows eligible individuals to register and vote at the same time, is a proven method to increase participation and turnout among eligible voters.[98] States with Same Day Registration record consistently higher voter turnout and participation than states without it.[99]

  - *Expanding Agency Registration and Automate the Registration Process:* States should modernize the voter registration system to remove administrative burdens and costs by taking the initiative to place eligible voters on the registration rolls rather than leaving the burden on individual citizens to navigate the voter registration process.

  - *Making Registration Permanent and Portable:* Almost 36.5 million US residents moved between 2011 and 2012.[100] Low-income individuals are twice as likely to move as those above the poverty line. Voter registration should become portable and permanent for persons who move within a state, by automatic updates to registration records as citizens change their address.

- *Protections Against Intimidation and Wrongful Challenges* States should put measures in place to protect voters from intimidation tactics, including clear rules and procedures to protect voters from improper removal from voting rolls, intimidating behavior at polls, and deceptive practices that discourage voting.

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PREPARED STATEMENT OF NICK HANAUER

SECOND AVENUE PARTNERS

JUNE 6, 2013

For 30 years, Americans on the right and left have accepted a particular explanation for the origins of prosperity in capitalist economies. It is—that rich business people like me are "Job Creators"—that if taxes go up, on us or our companies, we will create fewer jobs. And that the lower our taxes are, the more jobs we will create and the more general prosperity we'll have.

Most Americans, and many of you in this room are certain that these claims are true.

But sometimes the ideas that we know to be true are dead wrong. For thousands of years people were certain, positive, that earth was at the center of the universe. It's not, and anyone who doesn't know that would have a very hard time doing astronomy.

My argument today is this: In the same way that it's a fact that the sun, not earth is the center of the solar system, it's also a fact that the middle class, not rich business people like me are the center of America's economy. I'll argue here that prosperity in capitalist economies never trickles down from the top. Prosperity is built from the middle out.

As an entrepreneur and investor, I have started or helped start, dozens of businesses and initially hired lots of people. But if no one could have afforded to buy what we had to sell, all my businesses would have failed and all those jobs would have evaporated.

That's why I am so sure that rich business people don't create jobs, nor do businesses, large or small. What does lead to more employment is a "circle of life" like feedback loop between customers and businesses. And only consumers can set in motion this virtuous cycle of increasing demand and hiring.

That's why the real job creators in America are middle-class consumers. The more money they have, and the more they can buy, the more people like me have to hire to meet demand.

So when businesspeople like me take credit for creating jobs, it's a little like squirrels taking credit for creating evolution. In fact, it's the other way around.

Anyone who's ever run a business knows that hiring more people is a capitalists course of last resort, something we do if and only if increasing customer demand requires it. Further, that the goal of every business—profit—is largely a measure of our relative ability to not create jobs compared to our competitors. In this sense, calling ourselves job creators isn't just inaccurate, it's disingenuous.

That's why our current policies are so upside down. When you have a tax system in which most of the exemptions and the lowest rates benefit the richest, all in the name of job creation, all that happens is that the rich get richer.

Since 1980 the share of income for the richest 1 percent of Americans has tripled while our effective tax rates have fallen by approximately 50 percent.

If it were true that lower tax rates and more wealth for the wealthy would lead to more job creation, then today we would be drowning in jobs.

If it was true that more profit for corporations or lower tax rates for corporations lead to more job creation—then it could not also be true that both corporate profits and unemployment are at 50 year highs.

There can never be enough super rich Americans like me to power a great economy. I earn 1,000 times the median wage, but I do not buy 1,000 times as much stuff. My family owns three cars, not 3,000. I buy a few pairs of pants and a few shirts a year, just like most American men. Like everyone else, we go out to eat with friends and family only occasionally.

I can't buy enough of anything to make up for the fact that millions of unemployed and underemployed Americans can't buy any new clothes or cars or enjoy any meals out. Or to make up for the decreasing consumption of the vast majority of American families that are barely squeaking by, buried by spiraling costs and trapped by stagnant or declining wages.

This is why the fast increasing inequality in our society is killing our economy. When most of the money in the economy ends up in just a few hands, it strangles consumption and creates a death spiral of falling demand.

Significant privileges have come to capitalists like me for being perceived as "job creators" at the center of the economic universe, and the language and metaphors we use to defend the fairness of the current social and economic arrangements is telling. For instance, it is a small step from "job creator" to "The Creator." When someone like me calls themselves a job creator, it sounds like we are describing how

the economy works. What we are actually doing is making a claim on status, power, and privileges.

The extraordinary differential between the 15–20 percent tax rate on capital gains, dividends, and carried interest for capitalists, and the 39 percent top marginal rate on work for ordinary Americans is just one of those privileges.

We've had it backward for the last 30 years. Rich businesspeople like me don't create jobs. Rather, jobs are a consequence of an eco-systemic feedback loop animated by middle-class consumers, and when they thrive, businesses grow and hire, and owners profit—in a virtuous cycle of increasing returns that benefits everyone.

I'd like to finish with a quick story.

About 500 years ago, Copernicus and his pal Galileo came along and proved that the earth wasn't the center of the solar system. A great achievement, but extremely unpopular with the political leaders of the time.

Remember that Galileo invented the telescope, so one could see, with ones own eyes, the fact that he was right. You may recall however, that the leaders of the time didn't much care, because if earth wasn't the center of the universe, then earth was diminished—and if earth was diminished, so were they. And that fact—their status and power—was the only fact they really cared about. So they told Galileo to stick his telescope where the sun didn't shine—and put him in jail for the rest of his life. And by so doing, put themselves on the wrong side of the facts, and history, forever.

500 years later, we are arguing about what or whom is at the center of the economic universe. A few rich guys like me, or the American Middle class.

But as sure as the sun is the center of our solar system, the middle class is the center of our economy. If we care about building a fast growing economy that provides opportunity for every American, then me must enact policies that build it from the middle out, not the top down.

Lets not forget the fundamental law of capitalism. When workers have no money, businesses have no customers.

Tax the wealthy and corporations—as we once did in this country—and invest that money in the middle class—as we once did in this country. Raise the minimum wage—to $15.00. Those polices won't just be great for the middle class, they'll be great for the poor, for businesses large and small, and the rich.

PREPARED STATEMENT OF STEVEN D. HILL

DIRECTOR, NEVADA GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

JUNE 6, 2013

Chairman Merkley, Ranking Member Heller, and Members of the Committee, after nearly two decades of Nation-leading growth and prosperity, followed by a recession of equal or greater magnitude, Nevada and its people are recovering.

Nevada's focus is on an economy that is both vibrant and sustainable, anchored by our world-class tourism, gaming, and mining industries, but supported by emerging economic clusters offering good jobs across a diversified and forward-looking set of industries. Nevada was hit particularly hard when the housing bubble burst, and had to think differently in order to recover. With the leadership of our Governor and the legislature, and in partnership with the private sector, education, and other partners we have done so, and the results have started to show.

Nevada has historically been a State in which the middle class not only could find a job, but could also "get ahead." The State's major industries were growing and offered employment across a wide spectrum of professions. Many good-paying jobs, and a growing number of jobs, were available for candidates with modest education requirements. Job growth from 1990 through 2006 averaged nearly 5 percent, primarily driven by the gaming and construction industries. Unemployment was low, and demand for workers drove inflation adjusted wages up nearly 14 percent between 2000 and 2006.

But by 2007, Nevada was at the center of the housing crisis—a crisis not only for homeowners throughout the State, but also for the 100,000 people in the construction industry who lost their jobs. While the State has turned the corner, again leading the Nation in home price appreciation over the past 12 months, and leading the Nation in unemployment reduction, per capita foreclosures remain the country's highest, more than 50 percent of middle class families remain underwater in their mortgages, and unemployment is 9.6 percent. Real progress has been made, but much work remains.

Moving forward, Nevada's economy will be different. While tourism and gaming is recovering, major expansion in that industry will not, in and of itself, drive

growth in the State. Construction will achieve equilibrium, but many of the jobs lost in that industry will not return. In order to offer our middle class that same opportunity to "get ahead," Nevada is intentionally embarking on a different economic trajectory. Emphasis is being placed on emerging sectors that can provide diverse, sustainable, and high-paying jobs—jobs in technology, advanced manufacturing and healthcare, jobs that innovate, jobs that export.

The middle class needs resolution to the housing crisis that continues to affect so many, and they need opportunity for a good job. Much is left to do, but Nevada is on a positive trajectory.

1993–2007

From 1993 through 2007, Nevada led the Nation in job growth, with the number of jobs in the State growing from 650,000 in 1993 to 1,300,000 at its peak at the end of 2007, a nearly 5 percent compounded annual growth rate.

Some key statistics:

- Median home price rose from $125,000 in 1995 to $320,000 in 2006
- Residential raw land cost rose from $40,000 in 1995 to $560,000 in 2006
- Residential building permits rose from 20,000 in 1993 to 46,000 in 2006
- Household earnings rose from $37,000 in 1993 to $62,000 in 2007

During this same period, construction employment grew from 45,000 to 146,000, moving from approximately 6.5 percent of total employment to 11.5 percent at its peak in mid-2006, compared with a relatively stable national average of 5 percent. In other words, Nevada had 85,000 more construction workers employed than the national average would predict.

While in retrospect, the bubble was obviously building, Nevada's most reliable historical leading indicator—new hotel room construction—was pointing to even more growth. With 40,000 new rooms to be built, demand for an additional 130,000 jobs, 100,000 homes, and all of the required infrastructure such as schools, streets, and utilities, as well as the follow-on commercial space would be needed. With good reason, Nevada's focus in 2005 was how to deal with an accelerating rate of growth.

2008–2010

But growth and prosperity—even a sense of security—came to an abrupt halt as 2007 ended and 2008 began. The housing bubble burst, construction fell precipitously, the recession hit the gaming and tourism industry, and Nevadans lost jobs in record numbers.

Key statistics for the period:

- Median home prices fell from $320,000 to $125,000
- Residential building permits fell from 46,000 to 5,000
- Construction employment fell from 146,000 to 50,000—a loss of 96,000 jobs
- Total employment fell from a high of 1,286,000 to 1,111,000—a loss of 175,000 jobs
- Unemployment rose from a low of 4.2 percent in December of 2006 to a high of 14.0 percent in September 2010

Throughout this period, Nevada led the Nation in both unemployment and foreclosures—a 1–2 punch that put the middle class on the mat. The lack of job opportunities, while being anchored to underwater mortgages, caused many to seek work where they could find it—often at lower pay and with fewer hours. The uncertain national and global economic outlook only served to exacerbate the situation.

A Focus on Economic Development

Entering 2011, there was urgency throughout Nevada to bring jobs to the State, help existing industries recover and grow a more diverse economy. Following his election in 2010, Governor Sandoval worked with the 2011 Legislature to restructure, refocus, and reenergize the State's economic development effort.

Following the direction laid out by the Governor and the legislature, Nevada has embarked on a parallel path—doing everything possible to get Nevadans back to work quickly while working to build on its strengths to grow future economic sectors that provide good-paying, stable jobs.

To create the best job-creation environment possible, the Governor's first action in office was an executive order freezing regulations and ordering all State agencies to review existing regulations to determine which could be eliminated or streamlined. This effort resulted in over 600 regulations being eliminated and the reform of over 1,000. But regulatory reform is not just about eliminating regulations. Clarity, consistency, and response speed are equally important. Nevada's focus on assist-

ing job creation includes a focus on finding a way to say "yes" and doing so quickly, while upholding standards necessary for the safety and health of our workers and citizens.

Immediate attention was also directed to the nearly 100,000 construction workers and 50,000 hospitality and gaming employees who were out of work. Many of these would need to find employment in different industries and could not wait years to be retrained in order to do so. Manufacturing, logistics and distribution, mining, and back office services were all identified as areas where the skills of out of work Nevadans could be utilized. Expanding companies have recognized this and are moving to the State.

Shorter-term training programs, aligned with near-term employment opportunities, were also given high priority. Certificate programs in information technology, health care, and manufacturing have been emphasized. Community colleges have become adept at designing short-term programs for businesses that need workforce training to meet a particular need—training that can be done on campus or at the business.

Over the coming 3 to 5 years, Nevada looks to develop and grow regional industry clusters, capitalizing on the State's strengths, and focusing on exporting, innovation and the commercialization of research, and advanced manufacturing. Some of the key initiatives include:

- The only statewide response to the Federal Aviation Administration's Screening Information Request to be designated at one of six test sites for unmanned aircraft systems. Nevada offers the Nation's best airspace for safe and private testing, vast experience in the field, and a welcoming environment evidenced by letters of support from our entire congressional delegation, the Governor and legislature, and a host of counties and cities across the State. The industry has very high growth potential and can bring thousands of good-paying jobs to Nevada.
- Early this year, partnering with IBM, Nevada launched a water Center of Excellence. The COE aims to combine expertise from higher education, including the Desert Research Institute, globally recognized for its work in the water and energy field, and the Southern Nevada Water Authority, with data analytics to develop cutting-edge products, services, and methods to address water needs in the State and around the world.
- The 2013 legislature passed the Nation's first online gaming legislation, allowing intrastate play to be governed by the world's most respected regulatory framework. The legislation also permitted compacts to be developed with other States. Building on Nevada's position as the global leader in gaming, the new industry can bring large numbers of jobs to the State in a broad variety of fields including digital media, information technology and cyber security, and professional services.
- The 2013 legislature provided funding for the Knowledge Fund, a joint effort between the Governor's Office of Economic Development and the research institutions within the Nevada System of Higher Education. The Knowledge Fund is designed to fund specific projects to advance the highest opportunity research and commercialization projects within the university system, with a focus on product, service, and job creation, and company spin-offs.
- In addition to water technology and efficiency, Nevada is advancing its sustainability position in both energy and agriculture. Recently passed legislation will replace coal with cleaner energy sources including an additional commitment to renewable energy. Nevada possesses abundant geothermal and solar resources, offering not only the opportunity for clean energy and energy security to the State and the region, but also a host of good jobs. The State sponsored an Indoor Agriculture conference, drawing attendance from around the State and the world.
- Nevada also looks to further capitalize on its connection to the world and its proximity to the nearly 60 million potential customers in the western U.S. The State's geographic position, Las Vegas' attraction around the globe, and the State's business environment make Nevada an ideal location for manufacturing, assembly, and distribution, an industry that is already an important sector in the State. Construction of I-11 connecting Las Vegas and Phoenix, the two largest cities in the country without an interstate highway connection, and an important component in the CANAMEX Corridor, will be key to expanding this industry.
- Nevada also has strong and growing Hispanic and Asian populations with established businesses connections in Latin America and Asia, providing a platform for growth. The Governor recently led trade missions to China and Korea,

and will lead a mission to Mexico in July. Companies that export are typically more stable and pay higher wages, and these trade missions facilitate new business relationships and strengthen existing ones.

- Sector Councils in each of 9 industries have been formed, bringing together leaders in business, education, labor, and Government to determine current and future workforce needs. These Councils identify both labor and skill gaps, help direct resources, and bring alignment to the process of training for real, available jobs.

Recovery: 2011–2013

Beginning in late 2010, Nevada started to recover. The pace of recovery was somewhat slow and uneven in 2011 and led primarily by the tourism and gaming industry, but began to accelerate in 2012 and into 2013. During the last 12 months companies such as Apple, Solar City, Take Two Interactive, and IBM have invested in the State. Just last week Berkshire Hathaway's MidAmerican Energy agreed to purchase the State's largest electric utility, NV Energy. Nevada now leads the Nation in both the rate of unemployment decline and home price appreciation.

Key statistics for the period:

- Median home price has increased from $125,000 to $150,000
- Land for new home construction is now $400,000 per acre
- 51,000 jobs have been added from the September 2010 low, 30,000 jobs in 2012 alone
- Construction employment has increased slightly but is just 4.5 percent of total employment
- Unemployment has decreased from 14.0 percent to 9.6 percent, and the size of the workforce has started to increase

Additional signs of growth can be seen. The gaming industry, which led the State out of the recession by adding 20,000 employees during 2011 and 2012, is strengthening. Projects totaling nearly $10 billion have been announced with the last 3 months along the Las Vegas Strip, including an expansion of the Las Vegas Convention Center, a major new hotel casino, the reopening of the Sahara Hotel, and an arena. A number of exciting projects across a broad spectrum of industries are on the horizon.

During the coming 3 to 5 years. And with continued focus on innovation, advanced manufacturing, exporting, and improved workforce development, job opportunities in the State will not only grow in number, but the diversity and quality of jobs will improve, allowing the middle class to grow in number and once again, get ahead.